

Quarterly Journal



Office of the Comptroller of the Currency

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Comptroller of the Currency

The Administrator of National Banks

I

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II

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Operations of National Banks

Spurred by sharp increases in federal government spending and new car purchases by consumers, the American economy grew at a 4.3 percent annual rate in the third quarter of 1985. This was the fastest expansion since the second quarter of 1984.

Sales of American-made cars reached extraordinarily high levels during the period as manufacturers offered enticing financing incentives to prospective purchasers. Also providing the foundation for the July to September growth were greatly increased defense-related outlays and expenditures for the purchase of grain by the federal government. Because U.S. industrial production was flat during the quarter, the manufacturing sector contributed little to growth.

During the third quarter Americans' personal savings rate—savings as a percent of disposable income—tumbled to 2.7 percent. This was the lowest level since the spring of 1950. To many, this suggested that consumers, who also have high rates of outstanding debt, will be unable to carry the recovery much longer.

The lingering mammoth trade deficit continued to place a drag on the economy's performance. The deficit climbed to \$38.4 billion in the third quarter, reflecting an increase of \$4.4 billion in the 3-month period.

During the quarter, short- and long-term interest rates continued to fall as the Federal Reserve Board carefully steered away from any action which might push rates upward. Motivating the Fed to keep on a deflationary course were the distress in the country's agricultural sector, an autumn agreement to push down the international value of the dollar, and the current lack of a truly robust economy.

The health of certain national banks continued to be endangered by the effects of the ailing farm sector, declining oil prices, a moribund commercial real estate market in localized areas, and Third World debt problems. National banks were also confronted with fewer possibilities to generate fee-based business. In response, they attempted to diversify their lending and seek alternative ways of investing bank funds.

On September 30, 1985 there were 4,966 active national banks. Twelve of these were the largest national banks with worldwide operations—the multinational national banks. Another 179 were the regional

national banks with total assets in excess of \$1 billion. The remaining 4,775 national banks were the community banks, smaller banks with total assets of less than \$1 billion.

Net income for all national banks for the first 9 months of 1985 was \$7.8 billion, an increase of 25.0 percent over 1984's 9-month net earnings. The growth in income occurred in spite of an escalating loan loss provision expense during the year. Improvement was a result of magnified net interest earnings, and gains realized from the sale of bank investment securities.

Net interest earnings expanded for two reasons: a widened net interest margin, or spread, coupled with an increase in the volume of earning assets relative to noninterest earning assets. Returns from the sale of investment securities accounted for one-third of the pre-tax growth in income. In the first three quarters of 1985 many national banks took advantage of declining interest rates and sold some of their interest-bearing investment securities for substantial profit.

The ratio of net interest earnings to average earning assets in multinational banks was 3.57 percent on September 30, 1985—an increase of 33 basis points from 1 year ago. Regional banks saw their net interest margin improve 8 basis points to 4.85 percent. Although community banks continued to have a wider spread than the larger banks, the margin in these smallest national banks grew only 1 basis point to 5.27 percent as of the third quarter.

Due to the continued growth in the volume of both net loan and lease charge-offs and nonperforming loans, national banks found it necessary to replenish and bolster their loss reserves during the year. The result was a 23.3 percent jump in loan loss provision expense for the first 9 months of 1985 compared to the same period in 1984. The regional and community bank groups continued to have the largest increase in provision expense. In the community banks, provision expense for the first 9 months of 1985 was 47.0 percent greater than it was for the identical time period in 1984. The period-to-period growth in 9-month provision expense in regional banks was 44.7 percent. Because of decreasing charge-offs and a reduction in the volume of troubled loans, the increase in provision expense in the multinational banks was held to only 2.0 percent from the identical time period 1 year earlier.

**EARNINGS AS OF THE 3rd QUARTER 1985
HAD REBOUNDED IN THE
MULTINATIONAL NATIONAL BANKS...**



**NET INTEREST MARGINS IMPROVED
IN THE 3rd QUARTER 1985
FOR ALL NATIONAL BANK GROUPS...**



**FEE INCOME CONTINUES TO CONTRIBUTE
TO TOTAL INCOME MOST SIGNIFICANTLY
IN THE LARGER NATIONAL BANKS...**



**PROFITS FROM THE SALE OF
BANK INVESTMENT SECURITIES
PLAYED AN IMPORTANT PART
IN SUPPLEMENTING 1985 EARNINGS...**



During the first 9 months of the year the growth in noninterest income outpaced the increase in noninterest expense. This also helped boost bank earnings for the first three quarters in 1985. Income from fees and service charges increased 18.0 percent during the period while overhead expenses such as salary and occupancy costs increased by only 12.4 percent.

The return on average assets ratio, an important earnings barometer, increased for the largest national banks and declined in community banks for the first 9 months of the year. In the multinational banks, the ratio of net income to average assets jumped from -0.04 percent as of September 1984 to 0.42 percent as of September 1985. This was because two multinational banks which posted large losses in 1984 were once again earning money in 1985. In regional banks, return on assets increased 2 basis points to 0.88 percent. For the community bank group, this earnings measure declined 4 basis points to 1.02 percent, primarily due to increased provisions expense made necessary by a growing volume of troubled loans.

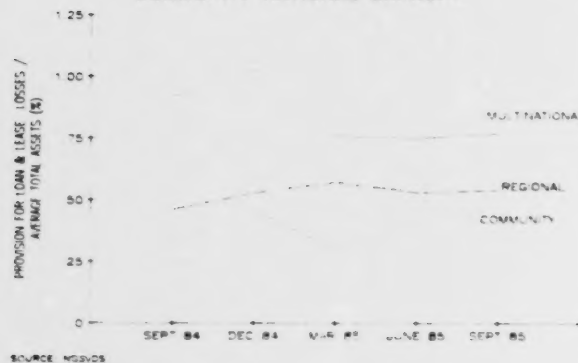
On September 30, 1985, consolidated national bank

assets equalled \$1 565 trillion. This was an increase of 2.4 percent from June 30, 1985.

Gross loans and leases grew 2.4 percent in the third quarter and accounted for 63 percent of total national bank assets at the end of September. In the multinational banks, gross loans and leases expanded 1.49 percent with the growth centered in loans to individuals and loans secured by real estate. Regional banks continued to exhibit the most aggressive third-quarter loan growth of the three national bank groups, 4.5 percent. Consumer and real estate loans accounted for the majority of the increase at regional and multinational banks. Loan growth in the community banks was relatively flat, 0.4 percent. The decline in volume of loans outstanding to businesses was mitigated by an increase in the volume of consumer and real estate loans.

Ownership of investment securities by national banks increased by 1.4 percent during the third quarter. Although investment securities continued to comprise 13 percent of total national bank assets, there was some restructuring in the July to September period of both the maturity and composition of the portfolio.

**PROVISION EXPENSE HAS INCREASED
DRAMATICALLY IN THE
COMMUNITY NATIONAL BANKS...**



**THE VOLUME OF NON-PERFORMING LOANS & LEASES
INCREASED SIGNIFICANTLY IN THE
COMMUNITY NATIONAL BANKS
IN THE 3rd QUARTER 1985...**



**NET LOAN LOSSES ESCALATED
IN THE COMMUNITY NATIONAL BANKS
IN THE 3rd QUARTER 1985...**



**LOAN LOSS RESERVES
HAVE BEEN BOLSTERED BY
ALL NATIONAL BANK GROUPS...**



In the third quarter of 1985 national bank ownership of U.S. treasury and agency issues declined 1.7 percent while possession of state, county and municipal (SCM) issues increased 6.3 percent. The decline in ownership of U.S. government securities was the result of a 3.8 percent decrease in the holdings of these securities by community banks. The overall growth in SCM holdings was the effect of an 11.2 percent increase in ownership of these securities by regional banks.

During the third quarter, national banks reduced their holdings of securities maturing in less than 1 year in favor of issues with longer maturities. The book value of securities maturing in 12 months or less declined 2.5 percent during the third quarter, while the ownership of securities with longer maturities increased 3.3 percent. The maturity restructuring was the result of substantial increases in the ownership of longer-term securities by regional and multinational banks and a large reduction in short-term securities by the community banks.

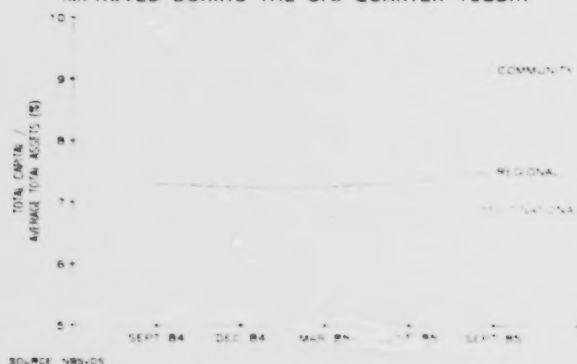
Total consolidated deposits in the national bank system were \$1.200 trillion on September 30, 1985—a

3-month increase of 2.8 percent. Over half of the expansion was attributable to an increase in noninterest-bearing demand deposits, primarily in the regional banks. The balance of the growth occurred in deposits with an unregulated interest rate.

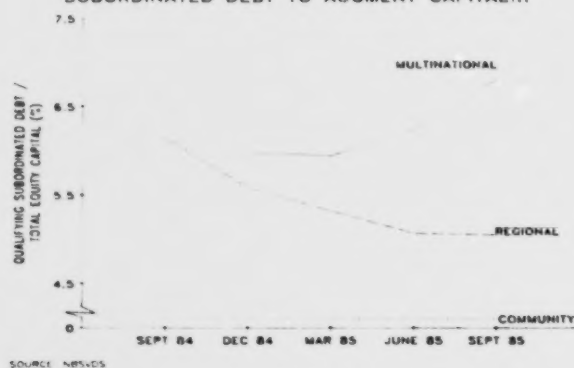
By the end of September 1985 subordinated debt in national banks equalled \$8.0 billion—up 8.0 percent during the 3-month period. Increased dependence by multinational banks on this source of funding accounted for 84 percent of the July to September growth.

Net loan and lease losses in national banks for the first 9 months of 1985 were up 6.5 percent from those posted for the identical time period 1 year ago. Because of persisting distressed conditions in the farm sector of the economy, community banks were particularly hard hit. Net loan losses in these smaller national banks escalated 54.6 percent when compared to the first 9 months of 1984. In the regional banks the increase in net charge-offs was 30.0 percent. Multinational banks actually saw net loan losses decrease 21.0 percent in the first three quarters of 1985 compared to 1984.

THE CAPITAL POSITIONS OF
ALL NATIONAL BANK GROUPS
IMPROVED DURING THE 3rd QUARTER 1985...



MULTINATIONAL NATIONAL BANKS
HAVE BEEN PLACING INCREASED RELIANCE ON
SUBORDINATED DEBT TO AUGMENT CAPITAL...



National banks increased loan loss reserves by \$1.38 for every \$1.00 in loans charged-off during the first 9 months of 1985. The excess provision expense resulted in a strengthening in the loss reserve position of the national bank system.

During the third quarter of 1985, the volume of nonperforming loans in national banks advanced 1.28 percent. In community banks the amount of loans and leases reflected on the banks' books which were 90 days or more past due, renegotiated, or in nonaccrual status continued to grow. This was evidenced by a 3-month jump of .7 basis points to 2.89 percent in the ratio of nonperforming loans and leases to gross loans and leases. In regional banks the ratio remained unchanged at 2.45 percent. The ratio declined 31 basis points to 4.02 percent at multinational banks.

On September 30, 1985, total capital in the national banking system was \$116.0 billion, an increase of 3.1 percent over June's figure. In the multinational banks, the ratio of total capital to average assets improved 18 basis points and stood at 7.01 percent at the end of the third quarter. In regional banks the capital ratio grew 17 basis points to 7.51 percent. The total capital to average assets ratio in community banks increased 8 basis points to 9.15 percent.

As of September 30, 1985, the multinational banks had retained a higher percentage of net income relative to the same 9-month period in 1984. The result was a decline from 38.52 percent to 28.07 percent in the ratio of cash dividends paid to net income. In regional banks the dividend payout ratio also declined. Because the growth in year-to-date net income from 1984 to 1985 outpaced the increase in cumulative cash dividends paid, the payout ratio in these banks dropped 343 basis points to 35.80 percent. In spite of an 8 percent decline in net income in community banks, cash dividends paid increased 11 percent. The result was a jump of 109 basis points in the dividend payout ratio of these smaller banks to 27.0 percent from September 30, 1984 to September 30, 1985.

On September 30, 1985 there were 959 national banks receiving special supervision due to financial, operating or compliance weaknesses. This was a 7 percent increase from June 30, 1985, and a 30 percent increase from September 30, 1984.

Woodrow W. Reagan
NBE/Financial Analyst
Community Bank Analysis Division

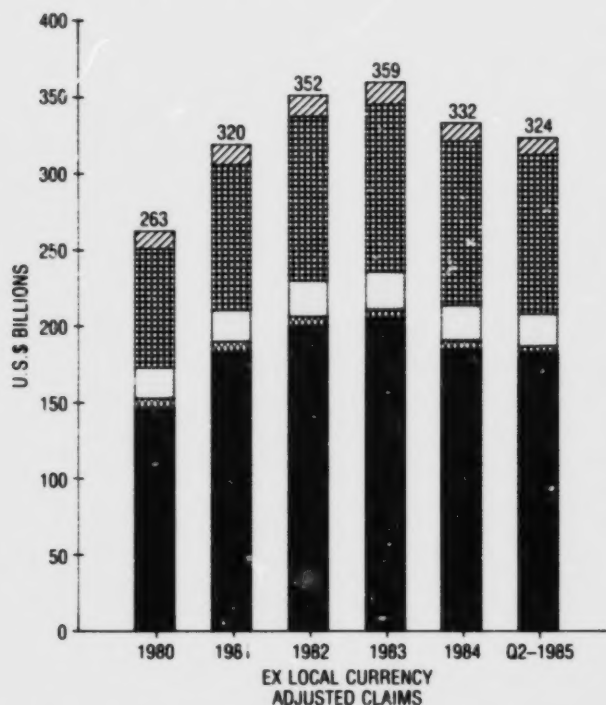
Foreign Debt to U.S. Banks

U.S. banks, as of September 1985, held foreign loans of \$318 billion, of which \$100 billion was to lesser developed countries (LDCs). Eighty-two billion dollars were owed to U.S. banks by Latin American countries, primarily by Brazil, \$24 billion; Mexico, \$25 billion; Venezuela, \$10 billion; and Argentina, \$8 billion.

The volume of U.S. bank foreign lending is measured through a quarterly reporting process which discloses balances owed as of those dates, and thus is not an indicator of funds flow which includes repayments, charge-offs, renewals or new disbursement.

Since the outbreak of the debt crisis in June 1982, lending by U.S. banks to foreign countries has undergone structural reconfiguration toward greater concentration in the largest banks and a shifting of debt from the private to the public sector. The shift in debt composition from private to public sector arises from the restructuring of debt by developing countries.

OPEC AND DEVELOPING COUNTRIES OWE 39 PERCENT OF U.S. BANK FOREIGN CLAIMS



LEGEND
 OTHER DEVELOPING OPEC E. EUROPE DEVELOPED

Source: CER/IRFE data base

Debtor Distribution

The distribution of debt among borrowing groups of countries is largest with the developed countries responsible for over one-half of the claims. The grouping of non-oil producing, developing countries in Latin America, Asia and Africa collectively owe nearly one-third of total loans.

The remaining borrowers, Eastern Europe, OPEC countries and offshore banking centers share the remaining 10 percent.

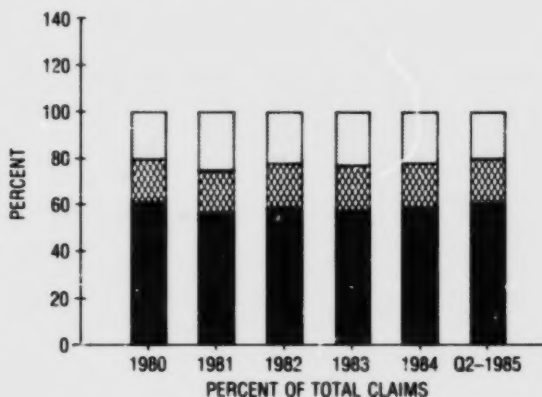
Lender Profile

The traditional profile for U.S. bank foreign exposure reflects a concentration of lenders within the large money center banks. The nine large banks of this group now hold nearly 60 percent of total exposures. The next largest 15 banks hold an additional 20 percent of foreign exposure. Thus, the 24 largest U.S. banking institutions claim nearly 80 percent of U.S. bank loans to foreign countries.

Comparison of Claims Relative to Bank Capital

The ratio of total international claims to bank capital has fallen dramatically since 1982. This is the result of increasing bank capital and decreasing total exposure since it peaked in 1983, at \$359 billion, down to \$318 billion.

NINE MONEY CENTER BANKS HOLD 60 PERCENT OF CLAIMS



LEGEND
 OTHERS NEXT 15 NINE BANKS

Source: CER/IRFE data base

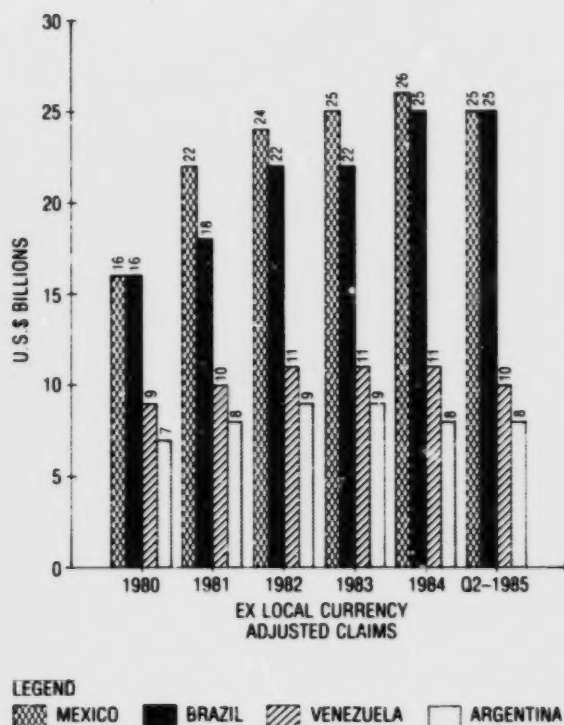
billion in the third quarter of 1985. The 24 largest banks decreased loans \$22.9 billion and increased capital \$18.2 billion since 1982.

Claims on Latin America

Total U.S. bank loans outstanding through the third quarter of 1985 to Brazil and Mexico each represented 8 percent of total claims on foreign countries. Brazil, with \$23.9 billion, and Mexico, with \$24.8 billion, have nearly twice the amounts outstanding as in 1979, however, the amounts are both slightly down from yearend 1984. As a percent of primary capital, claims of the 18 multinational banks to Brazil and Mexico through the third quarter of 1985, were 34 percent and 32 percent respectively, down from 43 percent and 37 percent respectively at yearend 1984. As of the third quarter of 1985, Argentina and Venezuela owed \$7.4 billion and \$8.5 billion respectively to the 18 multinational banks which represents 13 percent and 14 percent of their primary capital.

Claims through the third quarter of 1985 by the 18 multinational banks on the four Latin American countries of Argentina, Brazil, Mexico and Venezuela totaled \$54.4 billion or a total of 93 percent of primary capital.

THE LARGE BORROWERS OF LATIN AMERICA ARE MEXICO, BRAZIL, VENEZUELA AND ARGENTINA



Source: CER/IRFE data base

Maturities Lengthen

The maturity volume of total claims on foreign countries by all U.S. banks has shifted from claims maturing within 1 year to claims over 5 years in maturity. At the end of December 1979, 71 percent of total claims had a maturity of less than 1 year, 22 percent came due between 1 and 5 years, and 8 percent had a maturity of greater than 5 years. By contrast, through the third quarter of 1985, claims maturing within one year had reduced to 66 percent, maturities between 1 and 5 years increased slightly to 22 percent, and claims maturing over 5 years increased to 12 percent of total claims. This shift reflects the impact of restructuring and renegotiated existing loans over a longer time horizon.

Shift of Debt Toward Public Sector

There has also been a change in the composition of obligor. At the end of 1979, foreign banks owed 55 percent of claims to U.S. banks, the public sector owed 17 percent of total claims and the private sector owed 27 percent. Through the end of the third quarter of 1985, foreign banks had reduced their proportion to 47 percent while the public sector increased to 25 percent and the private sector remained nearly constant at 28 percent. Again, the restructuring and renegotiating processes have been instrumental in the change as U.S. lenders have sought comfort from sovereign assurances.

Official Involvement

Although the debt problems are far from being solved, implementation of new approaches and considerations currently are being explored to strengthen and stabilize the foreign claims of U.S. banks.

A program for sustained growth, often referred to as the "Baker initiative," is a proposal to address LDC debt problems. It calls for the adoption by principal debtor countries of comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment and to reduce inflation. It also plans for a continued central role for the International Monetary Fund in conjunction with increased and more effective structural and sector adjustment lending by the multilateral development banks coupled with increased lending by private banks.

Robert R. Bench
 Deputy Comptroller
 International Relations and Financial Evaluation

Comptroller's Report of Operations—1985

The Comptroller supervises and regulates national banks and federally licensed branches and agencies of foreign banks through a nationwide staff of bank examiners and other professional and support personnel. An informal Policy Group consisting of the Senior Deputy Comptroller for Bank Supervision, the Senior Deputy Comptroller for National Operations, the Senior Deputy Comptroller for Policy and Planning, the Chief Counsel, and the Senior Deputy Comptroller for Industry and Public Affairs advises the Comptroller on the development and implementation of OCC policy. The group also discusses possible action on complex, controversial or highly sensitive issues which could significantly affect the OCC, its employees or the banking industry.

Comptroller's Staff

The Comptroller has a small personal staff that directs, coordinates and manages the day-to-day operations of his office and advises him on policy formulation and management decisions. The staff develops the framework for, and monitors and manages projects of special interest to the Comptroller. The Comptroller's Executive Assistant and Special Assistants act on the Comptroller's behalf in carrying out policies and directions and by providing liaison with other agencies.

Senior Deputy Comptroller for Industry and Public Affairs

The Industry and Public Affairs Department provides information to and works with those outside the OCC to further the agency's goals. It is responsible for external relations with banks and banking organizations, Congress, the public, news media, bank customers and nonbank financial industry groups. In addition, it manages the Community Development Corporation program. The department includes the Banking Relations, Communications, Customer and Industry Affairs, and Congressional Liaison divisions.

Senior Deputy Comptroller for Bank Supervision

The Senior Deputy Comptroller for Bank Supervision formulates, implements and monitors bank supervisory policy. Related responsibilities include remote screening of national banks to detect trends and changes in the banking system which warrant attention, monitoring supervisory postures to ensure national consistency and participating in bank supervisory matters on the Federal

Financial Institutions Examination Council. The Senior Deputy is responsible for ensuring that the OCC's examination policies and procedures are effective and dynamic enough to adequately supervise the national banks. That responsibility is effected through supervision of the offices of the Deputy Comptroller for Multinational Banking, the Deputy Comptroller for International Relations and Financial Evaluation, the Deputy Comptroller for Special Surveillance, and the Chief National Bank Examiner. The Senior Deputy also coordinates the Comptroller's responsibilities as a member of the Board of Directors of the Federal Deposit Insurance Corporation.

Senior Deputy Comptroller for National Operations

The Senior Deputy Comptroller for National Operations is responsible for the efficient operation of the OCC. The Senior Deputy supervises the Deputy Comptroller for Operations and the Washington Office divisions of Operations Analysis, Training and Development, Human Resources and Administrative Services, the Equal Employment Opportunity and Conference offices, and the six district offices. Each district office is headed by a Deputy Comptroller, who is assisted by a District Administrator and several District Directors.

Senior Deputy Comptroller for Policy and Planning

The Senior Deputy Comptroller for Policy and Planning advises the Comptroller on policy matters and has been delegated sole decisionmaking responsibility for national bank charter and merger applications and other national bank applications relating to corporate activities. In addition, the Senior Deputy provides staff support to the Comptroller for his activities on the Depository Institutions Deregulation Committee.

The Senior Deputy Comptroller for Policy and Planning oversees the Economic and Policy Analysis Division and the Systems and Financial Management Department.

Chief Counsel

The Chief Counsel advises the Comptroller on legal matters arising in the administration of laws, rulings and regulations governing national banks. The Chief Counsel directs all legal functions in and for the OCC. Those duties involve writing and interpreting legislation, re-

sponding to requests for interpretations of statutes, regulations and rulings, defending the Comptroller's actions challenged in administrative and judicial proceedings, supporting the bank supervisory efforts of the Office and representing the OCC in all legal matters. Those respon-

sibilities are carried out through supervision of the Enforcement and Compliance, Legal Advisory Services, Litigation, Securities and Corporate Practices, Legislative and Regulatory Analysis divisions, and an organization of counsels in the OCC's six districts.

Examination and Supervision

Multinational Banking

The Multinational Banking Department, established in 1979, is responsible for the direct supervision of the nation's largest national banks, foreign banks with Federal licenses and international examination activities. Normal supervisory activities include examining multinational banks' worldwide operations, meeting with executives and directors of multinational banks, establishing capital levels and other supervisory mandates for multinational banks and examining the international activities of all national banks. In addition, Multinational Banking supervises the Regional Bank Program which was created in 1982. As of September 30, 1985, the 12 multinational banks and their national bank affiliates held assets of \$601 billion, representing 38 percent of the entire national banking system. The 65 banks designated as regional banks and their national bank affiliates in the Regional Bank Program held another \$506 billion, or 32 percent of the total. The importance of these multinational and regional institutions, aside from sheer size, is reflected in their worldwide operations, their key role in the domestic economy, and their leadership role in the evolving U.S. financial services marketplace.

Multinational Banking also processes a wide variety of corporate proposals. Corporate matters considered by the department in 1985 included establishment or expansion of operating subsidiaries; subordinated debt, common or preferred stock issues; advisory opinions to the Federal Reserve Board; charters for trust banks; mergers; conversions from state to national charters; relocation of branches or head office; excess fixed asset investment; cash dividend requests; and extensions of OREO holding periods.

During 1985, Multinational Banking was expanded to include the Multinational and Regional Bank Analysis Division. As a result, the Multinational Department now has three divisions—Multinational and Regional Bank Analysis, Multinational and Regional Bank Policy, and Multinational and Regional Bank Supervision. The analysis area provides financial and market analyses of the

largest companies in the financial services industry. The policy area plans, coordinates, and directs the development and implementation of policy relating to the supervision and examination of the larger institutions. It also initiates strategies to deal with emerging or identified problems which affect the large banks. Staffs headquartered in Washington and London conduct policy related activities. The supervision area is responsible for the examination and ongoing supervisory strategy of the individual multinational institutions and their affiliates and oversees the District Regional Bank Programs. To augment the Washington staff, a cadre of the most senior and experienced field examiners located in Chicago, Dallas, Los Angeles, New York, Pittsburgh, and San Francisco now report directly to the Multinational Department.

The examination focus in Multinational Banking is on an ongoing supervisory process. Supervisory strategies are developed for each of the multinational and regional bank companies. In developing supervisory strategies, emphasis is placed on evaluating the level of risk in a specific institution and devising a strategy to monitor the risks. This strategy encompasses both on-site and off-site analysis. The off-site analysis is being enhanced by improved automated systems and communications and increased contacts with market participants and analysts. On-site analysis has been redirected from the annual examination to a series of targeted examinations during the year. Targeted examinations are designed to be more narrowly focused toward the areas of known or perceived risk, thereby allowing for greater flexibility and utilization of our resources. This method of supervision has improved communication and information exchange between the OCC and the multinational banks which enhance our supervisory capabilities to identify and address items of concern earlier in the process.

During 1985, principal supervisory concerns centered on asset quality (especially in the agriculture, commercial real estate, and oil and gas industries), foreign exposures, the adequacy of capital and the allowance for possible loan losses, liquidity management and

compliance. The findings of targeted examinations have resulted in an understanding with various multinational banks to enhance credit supervision, increase capital and loan loss allowance levels, and improve liquidity management and compliance.

International Relations and Financial Evaluation

The Department of International Relations and Financial Evaluation was established in August 1983 to enable the OCC to identify and respond more effectively to the risks flowing from the national banking system's international activities. The department is responsible for collecting and analyzing data on banks' foreign exposure. It regularly monitors events and economic conditions in countries where national banks have significant cross-border exposures. When necessary, it makes recommendations to the Comptroller, other government agencies, and the Congress on policies, regulations, legislation, or other appropriate actions with respect to the international activities of national banks.

During 1985, the department chaired the Interagency Country Exposure Review Committee, a committee composed of representatives from each of the three federal banking agencies. The Committee meets three times each year to evaluate and, when appropriate, classify the transfer risk associated with exposures to countries which have been experiencing difficulty servicing their external debt. The department disseminates the results of the Committee's deliberations to affected national banks.

Finally, the department is responsible for OCC's international relationship with other U.S. government and multilateral agencies, bank supervisors in other countries, and other members of the international financial community so that the OCC may share the information available through those bodies, and foster the development of a more effective mechanism for supervising the international banking system.

During 1985, the Department of International Relations and Financial Evaluation continued its implementation of the International Lending Supervision Act of 1983, including the imposition of mandatory reserves against country loans classified by the Interagency Country Exposure Review Committee as "Value Impaired," and the collection of country exposure information from banks on a quarterly basis.

Special Surveillance

The Special Surveillance Department has a broad range of functional responsibilities. The Special Projects Division manages the OCC's program for community banks

which require increased supervisory attention. The Supervisory Analysis Department is involved in meeting the OCC's continuing and expanding needs for supervisory information. In addition to collecting and analyzing information about the financial system, the department is responsible for improving and developing analytical techniques, expanding the application of technology to supervisory processes and developing advanced methods for identifying risks in the system and, finally, allocating supervisory resources.

In 1985, emphasis within the department was on the establishment of a comprehensive supervisory information system, policy and systems development to address change in our supervisory programs and the enhancement of the policy development activities within the special supervisory portion of the department.

Special Projects

The Special Projects Division is the OCC's focal point for supervision of community banks that require increased attention. At the end of 1985 there were over 900 national banks in the program. Although the program is administered from Washington, primary supervisory responsibility for individual banks is divided between OCC's district and Washington offices; depending upon the size of the bank and the type and severity of its problems. The objectives of the division are:

- To promote consistent and effective specialized supervision of those banks which demonstrate instability or pose a potential or real threat to themselves or the banking system; and
- To rehabilitate problem banks through prompt resolution of identified or potential problems.

Through the initiation of policies and procedures, the benefits of a review committee process, and a variety of oversight mechanisms and tools the division is able to meet these objectives.

If moral suasion or other informal corrective measures are unsuccessful in rehabilitating a bank, then formal administrative actions are initiated. In 1985, the division initiated more than 554 formal and informal administrative actions and supervised 30 bank closings. Twenty-five of the closings were followed by a purchase of assets and assumption of liabilities, two were followed by a transfer of insured deposits to other institutions, and three resulted in a payout of deposits by the FDIC.

Special Projects examiners participated in developing information for Congressional testimony, assisted in other OCC studies and task forces, and served as

instructors for various OCC and non-OCC continuing education programs.

Supervisory Analysis

Community Bank Analysis

The Community Bank Analysis Division supports the OCC supervisory functions by developing supervisory information systems, analyzing data and ensuring its integrity, and assessing systemic risk in the national banking system.

In 1985, the division was the focal point for creating and updating the individual systems which make up the OCC's Supervisory Information System (SIS). Systems developed or enhanced to support expanding needs within the OCC for improved supervisory information are:

- Automated Examination Generated Information System (AEGIS). AEGIS is a database of objective and subjective information about the policies and administrative controls used by financial institutions.
- The National Bank Surveillance Video Display System (NBSVDS) is an automated system that includes quarterly ratio and financial information from reports of condition and income, plus information on bank holding companies, examination results and other regulatory information.
- The Community Bank Scoring System (CBSS), which has been in use since July 1985, is used to identify potentially unstable banks for early warning analysis.
- The Supervisory Monitoring System (SMS) is an automated system which records the supervisory history and plan for each institution regulated by the OCC.

Implementation of the Industry Review Program continued in 1985. This program identifies economic sectors that have or may have a significant effect on the national banking system. The potential effects of these industries on national banks are then analyzed. The results of these analyses are provided to senior management, along with policy options for addressing identified industry weaknesses. Sectors receiving attention in 1985 included agriculture, energy, and real estate construction. During the year division staff worked with a commercial vendor to develop an industry risk rating system for use in the industry review program. Responsibility for managing the Industry Review Program was transferred from the division in the third quarter of 1985 to the Economic and Policy Analysis Division.

During 1985, the division published a variety of regular and special reports analyzing and addressing policy issues, systemic risk, and financial trends within the national banking system. Among these reports were:

- Banking Circulars addressing the dividend policy of national banks.
- A number of reports concerning liquidity issues, including analysis of a white paper on liquidity supervision, and reports on national bank activity in brokered deposits, uninsured deposits and premium rates offered for deposits.
- A survey of capital trends in national banks.
- An analysis of the use and effectiveness of the Annual Review and Visitation (ARV) examination.
- A study of trends in classified assets in national banks.
- An assessment of the Farm Credit System.
- A study of unstable banks to identify leading indicators of problem banks.
- Quarterly Management Reports on general financial trends in national banks.
- Articles in the *Quarterly Journal* on the condition of the national banking system.
- A study of the trends and composition of noninterest income in national banks.

The division also continued to play a major role in microcomputer training. Over 500 examiners took part in this training which included modules on four microcomputer applications developed, maintained and taught by division personnel.

Supervisory Research

Supervisory Research identifies, researches, and develops new microcomputer techniques and technology to improve OCC's supervisory process. Specific activities include development of financial modeling and advanced offsite analysis techniques; testing of various software tools; and analysis and recommendations on proposals for technological applications for bank supervision.

Computer technology plays a significant role in the OCC supervisory process. New technology (microcomputers, networking, applications, etc.) has given examiners capabilities for direct access to databases, downloading, data processing, and word processing. The distribution of this computing power to the ultimate user enhances the efficiency and effectiveness of the OCC's supervisory functions.

A major project in 1984 and 1985 was the microcomputer implementation. Personnel from Supervisory Research have tested various hardware and software, and provided training support on specialized topics

such as local area networks, advanced software training, applications standards/development, hard disk training, manager orientation on microcomputers, and SES training on microcomputers.

Research and development continues in the area of new techniques. The major applications being developed include annual financial forecasting models, quarterly financial forecasting models, and a quarterly interest rate sensitivity model. All of the models incorporate Call Report data downloaded from the OCC's mainframe computer. In addition, the microcomputer applications used in the Leesburg training are being consolidated under Supervisory Research. The unit will also administer and contribute to the OCC's Microcomputer Users Group which was formed to coordinate the development of innovative microcomputer applications.

Chief National Bank Examiner

The Office of the Chief National Bank Examiner advises on bank supervisory policy and issues and formulates, implements and monitors policies, programs and projects to achieve OCC's bank supervisory objectives. Reporting to the Chief National Bank Examiner are the Assistant Chief National Bank Examiner and the Deputy Comptroller for Trust and Securities. The Assistant Chief National Bank Examiner oversees Commercial Examinations, Consumer Examinations, EDP Examinations and Bank Accounting. The Deputy Comptroller for Trust and Securities is responsible for the Trust Examinations and Investment Securities divisions.

Commercial Examinations Division

The Commercial Examinations Division identifies issues and trends in the financial services industry and banking operations, develops and updates policies and procedures for examinations and bank supervision, and evaluates the effectiveness of and compliance with these policies, procedures and standards. In addition, the division revises and updates the *Comptroller's Handbook for National Bank Examiners* semiannually and administers the uniform commission examination for national bank examiners.

The division also acts as liaison with other regulatory agencies, the banking industry and other related groups on commercial examination policy and procedures. The division frequently develops data and text for use in Congressional testimony, speeches, correspondence and reports.

The Commercial Examinations Division was primarily responsible for developing the OCC's disclosure proposal. The division led the internal task force which

collected recommendations from throughout the agency and drafted the final disclosure proposal. A proposed revision of 12 C.F.R. 18 was published for comment in October 1985.

During 1985, the division conducted a comprehensive review of all existing supervisory policies and procedures, examining and banking issuances, and all primary examination handbooks. Existing policies were summarized, indexed, and published in the Bank Supervision Policy Directory, a concise and useful reference source for all examining personnel.

The division led the Bank Secrecy Act project which included a review of all phases of bank supervision and required in-depth analysis of specific bank examinations, internal agency operations, and enforcement and compliance policies. The division responded to congressional inquiries and participated in related investigations. The division is responsible for on-going Bank Secrecy Act compliance.

In early 1985, the division was instrumental in the implementation of the first OCC capital regulation. The division continues to provide support and assistance to the banking community and field personnel in interpreting the new regulation.

In addition, the division participated in an off-balance sheet risk task force to research risk in various instruments and activities and to define the market and potential for growth. The research focused on standby and other letters of credit and the potential effect of both interest rate and asset swaps.

The division developed and issued examination guidelines on troubled real estate and construction lending.

The division also finalized chain banking supervisory policy, continued brokered deposit monitoring, provided support to the Chief of National Bank Examiner's quality control program and administered the civil money penalty process. It issued a revised PPM on civil money penalties.

During the year, a wide variety of research projects and related policy issuances were initiated which focused on emerging areas of risk and innovation in the banking industry. These included developing an agency position on agricultural lending problems including preparation of testimony on the status of the agricultural sector and OCC's examination policies and procedures applicable to agricultural lending. Other studies and projects addressed analysis of banker's blanket bond coverage problems, cash management, kiting schemes, alternative risk management processes, liquidity policy, the effects of interstate

banking on supervision, risk-based capital adequacy and off-balance sheet risk.

The division also administers the Shared National Credit Program. This program provides a uniform national review of loans of \$20 million or more when the credit is shared by two or more banks. The 1985 Uniform Review of Shared National Credits was the most extensive since the program was initiated in 1975. Simultaneous reviews by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the OCC covered 3,056 shared credits which aggregated \$355 billion. This amount represents approximately 28 percent of all domestic commercial bank credit.

Consumer Examinations Division

The Consumer Examinations Division is responsible for ensuring that national banks achieve a high level of compliance with consumer protection and fair lending laws. The division develops examination procedures and policies, monitors national bank compliance with consumer protection laws and regulations, and assists in consumer compliance training for examiners and bankers. In addition, the division coordinates the administrative enforcement process for banks requiring more than normal supervisory attention as a result of noncompliance with consumer protection laws. The division's staff gives technical assistance to examiners and bankers and administers the OCC's consumer complaint program.

Division staff keep abreast of changes in financial products and services and publish supplements to the *Comptroller's Handbook for Consumer Examinations* annually as well as drafting bulletins and circulars to inform examiners and the industry.

In 1985, the division developed an enforcement policy for violations of the Electronic Funds Transfer Act and the Real Estate Settlement Procedures Act. The policy requires bank management to review their policies with respect to these laws and to reimburse affected customers when certain violations are detected.

Division staff developed a computer program for calculating annual percentage rates and determining the accuracy of disclosed annual percentage rates required by the Truth in Lending Act. The program was forwarded to the examining staff and made available to the American Bankers Association. Division staff also participated in the Chief National Bank Examiner's 1985 Quality Control Project and served on the Bank Supervision Task Force to revise OCC's issuances to ensure consistency.

Division staff developed the consumer compliance

portion of the Automated Examination-Generated Information System. This computer-based system houses all consumer compliance oriented data generated by the examining staff in reviewing bank compliance efforts.

Special Assistant for Fair Lending—The Special Assistant for Fair Lending works closely with the Consumer Examinations Division. The Special Assistant is a policy advisor who helps identify and initiate program and procedural changes which may strengthen the OCC's overall responsiveness to fair lending issues. Responsibilities include evaluating and monitoring examination procedures to determine the extent of banks' compliance with fair lending laws and regulations and recommending specific corrective actions for banks that may not be in compliance. The Special Assistant is the OCC's primary representative in fair lending matters, and serves as liaison with other regulatory agencies, civil rights organizations, the Departments of Justice and Housing and Urban Development, and other public and private organizations.

EDP Examinations Division

Shifts in focus and resource allocation of the EDP Examinations Division were made to support the goals and objectives of the Chief National Bank Examiner and Bank Supervision.

The EDP Examinations Division is responsible for supporting the Chief National Bank Examiner and Bank Supervision by identifying issues, developing policy, and evaluating policy for bank technology and information systems management issues. In 1985, the division provided substantial support in addressing OCC-wide bank supervisory and operational priorities.

The division identifies issues through research and environmental scanning, industry liaison, technical consulting and training support for OCC field staff. In addition, the division devotes a substantial portion of its resources to surveillance of events and trends in the banking industry's use of technology.

The policy development aspect of the division's mission involves translating issues and concerns into bank supervisory policies and procedures. Senior project managers work with other bank supervision staff to design, develop, test and implement policy and procedural responses to technology and other bank supervisory issues.

The division administers the Bank Supervision Quality Control Program as well as a sophisticated information and reporting system for the EDP examinations func-

tion called AEGIS (Automated Examination-Generated Information System). AEGIS was implemented in 1985 and the division provided substantial training to OCC field staff.

The division administers the Multi-District Data Processing Servicer Supervision Program (MDPS). This program is an interagency cooperative program for supervising the largest EDP servicers of banks, savings and loan associations and credit unions. The program was substantially expanded in 1985 through the addition of a number of large data processing servicers.

In 1985, the division participated in bank supervision projects including data base design and providing consulting expertise for the OCC's in-house EDP function. The division participated in bank supervision studies of agricultural credit conditions and subsequent reporting to Congress. In addition, the division's deputy director was assigned to assist a district office in the development of its management information systems.

A precedent-setting formal administrative action was taken against a major data processing servicer. The action is significant because the servicer is privately owned and not affiliated with any financial institution.

An advanced EDP training program was introduced which provides career development opportunities for selected examiners. This program will provide state-of-the-art expertise necessary for the OCC to fulfill its EDP supervisory responsibilities.

Finally, the division's resources were called upon to provide technical training on issues such as daylight overdrafts and making presentations to several groups of foreign bankers.

Bank Accounting Division

The Bank Accounting Division establishes accounting principles and reporting practices for national banks, interprets these principles and practices, develops internal accounting education programs, and reviews and provides guidance for the preparation of financial statements included in merger proxy statements, offering circulars and registration statements. The division also represents the Office of the Chief National Bank Examiner in many OCC and interagency work groups, including the FFIEC Reports Task Force.

During the year, the division directed its attention to numerous accounting, reporting, and supervisory issues. These included capitalization of interest on loans, loan swaps, international loans, organization,

costs, deferred tax charges, sales of loans with recourse, push-down purchase accounting, troubled debt restructurings, intangible assets, computer software costs, futures and forwards, other real estate owned (OREO) transactions, and external independent audits. The division takes an active role in the process of setting accounting standards that apply to national banks by maintaining a close relationship with the Financial Accounting Standards Board (FASB), the FASB Emerging Issues Task Force, and the American Institute of Certified Public Accountants (AICPA) Banking Committee.

Through its participation in the quality control project, the division participated in reviews of district compliance with bank supervision policies to ensure consistency of application. Assistance was also provided in developing responses to various agricultural loan issues, and the division is participating in the development of regulations on the accounting for agricultural loans.

The division continued its effort to ensure adequate understanding of accounting principles and reporting requirements. Division representatives presented the OCC's views at several industry conferences and served as instructors for two formal training programs which were conducted for approximately 150 OCC examiners.

Financial statements reviewed by the division included those in 125 business combination proxy statements (12 C.F.R. 11.5 and 11.51), 43 offering circulars (12 C.F.R. 16), and 73 registration statements on Forms F-1, S-14, or S-15 (12 C.F.R. 11.4 and 11.41).

Trust Examinations Division

The Trust Examinations Division develops examination policies and procedures relating to the fiduciary activities of national banks. Technical support is provided to examiners, District/Field Offices, and other divisions in the Washington Office. Policy decisions and information are disseminated to banks, trade associations, and other government agencies. External liaison is maintained with the fiduciary and related financial services industry. Trust staff participate in national and state trust conferences. They deliver speeches and lectures and participate in panel discussions.

The division plans and oversees international examinations of national bank fiduciary activities. During 1985, the international fiduciary activities of four multinational banks with 14 branches or affiliates were examined at overseas locations. The division issued and processed 130 Annual Reports of International Fiduciary activities. Division staff supported the Multinational and Regional

Bank Divisions in overseeing the examination of domestic trust activities. Advice and assistance in enforcement and compliance activities involving trust examination matters were provided.

The division made significant contributions or supervised and completed numerous internal projects during 1985. These included the revision and expansion of the Annual Report of Trust Assets, preparation of a Special Call Report for determining fiduciary cash investment practices in national banks, revision of the Time and Travel Report System, participation in District Quality Control Supervision and development of Federal Branch Fiduciary Examination Procedures.

In addition to formulating policy, the division performs administrative and functional activities. Three hundred two collective investment fund plans/amendments were processed during 1985, including 123 documents for review and response. An increasing number of fiduciary beneficiary complaints requiring technical expertise were researched for resolution. Two supplements to the *Comptroller's Handbook for National Trust Examiners* were completed and published during the year.

Sixty applications for fiduciary powers were reviewed and processed during the year, including applications for two foreign federal branches. Requests to establish 13 trust service offices were analyzed and approvals issued. The division reviewed and processed approximately 50 registrations/amendments to registrations of the 688 stock transfer agents in national banks. Securities and Exchange Commission proposals concerning turnaround times for exempt transfer agents, removal or suspension of transfer agents, and tender offers were analyzed and comments rendered.

Finally, the division processed nearly 1,700 Special Reports of Fiduciary Activities and provided Trust Activities Reports containing peer group information to the reporting banks and field examiners for supervisory purposes. The division was also involved extensively in advising the OCC Training and Development

Division on trust training curriculums and for the FFIEC's Trust Seminar. Trust staff also served as lecturers and instructors for FFIEC, OCC and inter-agency schools.

Investment Securities Division

The Investment Securities Division serves as the focal point within the OCC for policy analysis on matters relating to investment securities, bank dealer and money market activities. The division formulates, implements, monitors and evaluates bank supervisory policy in these areas. The division coordinates and carries out the responsibilities imposed by federal securities law as the appropriate regulatory agency for national bank municipal securities dealers. In addition, the division acts as liaison with the investment banking and securities industry, bank dealer community, other regulatory bodies and the public with respect to investment securities, bank dealer and money market activities.

Rapid changes in trends and products in this segment of the banking industry were experienced during 1985. The division monitored and studied these changes, developing policies and examination techniques to ensure continued safe and sound bank operation in these areas. The division worked with the Federal Financial Institutions Examination Council to develop and publish inter-agency supervisory policy statements on securities lending and repurchase agreements.

The division continued to administer the Investment Specialist program, a training program designed to ensure that a high level of examiner expertise is available in this increasingly complex and innovative area. The Investment Securities Division also continued its commitment to other types of examiner training by participating as instructors and coordinators for a series of seminars on bank dealer and investment activities, futures and interest rate swaps. The division's staff participated in numerous outside speaking engagements, serving to foster communications with the bank dealer and investment banking communities as well as the securities industry.

National Operations

Operations

The Deputy Comptroller for Operations serves as a key advisor to the Senior Deputy Comptroller for National Operations by participating in all matters

pertaining to operations analysis, training and development, human resources and administrative services. The Deputy Comptroller is a member of the District Management Group and directs external audit liaison activities for the OCC.

Operations Analysis Division

The Operations Analysis Division is OCC's focal point for evaluation and consulting services. The division analyzes and evaluates the effectiveness and efficiency of OCC operations and programs to provide recommendations to management. The unit also provides support to National Operations. This includes supporting the Senior Deputy Comptroller for National Operations, Deputy Comptroller for Operations and various Washington task forces and committees.

The staff consists of national bank examiners and management analysts. Ongoing functions include the review and analyses of major programs and management systems, organizational surveys and design, workflow analysis, and project and program management.

In 1985, the division completed a major in-house management consulting project for streamlining district and field office operations, evaluated 1986 microcomputer equipment requirements for field and duty station use, conducted a study on the feasibility of providing clerical and/or para-professional assistance to field examiners, evaluated the effectiveness of a freeze-frame teleconferencing network, assessed the effectiveness of converting the District ANBE School to computer assisted instruction, conducted reviews of three divisions and one department to identify actual and potential barriers affecting work productivity and efficiency in these areas, performed subsequent workflow and operations studies of the divisions and department, produced a quarterly report addressing the full range of district operations, and completed an evaluation of the pilot of the new performance management program.

Training and Development Division

The Training and Development Division educates and develops OCC's executive, manager, examiner, attorney, and administrative staff in accordance with agency goals and budgetary constraints. The division's staff includes education specialists, employee development specialists, national bank examiners, a national trust examiner and a psychologist. The staff works on course design, course administration and career development.

The course design unit is responsible for developing new courses, developing computer-based training programs, and converting existing courses into other media. Some of the new programs developed in 1985 were the Technical Progress Evaluation (TPE), Agricultural Credit Self-Study course, Bank Secrecy Act video training, and a current issues course titled Industry Insight. Other projects undertaken were the

conversion of the ANBE Examining School to computer assisted instruction, and development of EEO and Commercial Real Estate Construction Self-Study courses.

Training and Development's course administration unit is responsible for administering all courses, including computer assisted instruction, curriculum development, District Staff Training Conferences, providing instructors, and evaluating and revising programs and courses. In 1985, Training and Development conducted 201 sessions of 89 ongoing professional training programs for 3,663 students. In addition, the division coordinated courses administered at the District level, administered three District Staff Training Conferences, and arranged for 1,451 courses outside the agency. During 1985 Training and Development completed the 2-week microcomputer training program. This project involved over 500 participants. The microcomputer training sessions introduced examining personnel to word processing, Report of Examination applications, telecommunications, Lotus 1-2-3, and financial modeling.

The division's career development unit is responsible for developing and maintaining executive programs to provide for OCC management succession planning. During 1985, Training developed and implemented the Coaching and Counseling, and Performance Management Training programs, revised the Career Development Course Directory, and began a review of all management training programs to develop an integrated process. In addition, the unit conducted 18 sessions of 10 ongoing management training programs for 311 participants.

Video teleconferencing has continued to be a highly successful medium for communicating educational topics and OCC policy to the field. Two teleconferences were conducted this past year and reached audiences ranging between 450 to 700 OCC employees.

Human Resources Division

During 1985, the Human Resources Division continued to develop and implement innovative personnel programs and policies to support the agency's overall mission. These included implementing a substantially revised recruitment program, a new performance management program, and enhancements to employee benefit programs. A number of revisions also were made in internal operations of the division to strengthen support to the districts and the Washington units.

Several enhancements have been made to the OCC's

National Recruitment Program. A major thrust of the program is centered on developing a systematic college relations program involving key faculty and administration at specific schools and more comprehensive interviews on campus and at OCC field offices. A selection procedure has been designed that consists of written and oral presentations to assess analytical ability, quality of judgment, planning, organization and communication skills of applicants for examiner positions. By implementing a recruitment program that better matches candidates with positions, examiner performance and job satisfaction should remain high.

The Human Resources Division, working with a variety of task force groups, developed a new performance evaluation system that balances employee concerns and organizational needs. There are three essential features to the new program. First, a formal planning document will be prepared for each employee at the beginning of the rating period that integrates OCC priorities and employee objectives and development goals. The second feature is the application of skill-based performance elements and standards. The third feature is improved frequency and quality of communications between supervisors and employees.

The results of performance management pilot programs both in the Washington units and the districts indicate that the new system is providing employees with a clearer understanding of job expectations and more frequent feedback on job performance. At the same time, the system gives managers better tools for planning operations and for differentiating between levels of performance.

Maintenance of competitive benefits is critical to OCC's ability to attract and retain the highest caliber of employees. During 1985, several benefits initiatives were developed and implemented. These included an apartment finding service for relocating employees who choose to rent, a mortgage pre-approval program to aid employees in securing home financing and 24-hour service at the OCC Travel Office.

Cost containment is essential to the success of OCC's benefits programs. To that end, cost reductions were negotiated in several insurance benefits and other benefit contracts were renewed at existing rates. Aggressive marketing of inventory properties also reduced the cost of the employee relocation program by approximately \$150,000 per year.

In an effort to strengthen support to the districts and the Washington units, several improvements were made in the division's internal operations. Initial efforts in the area centered on decentralization of personnel

management authority and implementation of the Personnel Management Information and Telecommunications System (PERMITS). Both of these programs were completed during 1985. They provide district managers with increased flexibility for personnel decisions as well as the ability to process personnel actions more efficiently. Other refinements in internal operations include the expanded use of automated management reporting systems and the development of more sophisticated modeling techniques to update staffing plans and projections.

The division implemented a Personnel Management Evaluations Program (PME) to monitor the effectiveness of Human Resource functions OCC-wide. Two PMEs were conducted during the year, and the results of each indicated that our efforts to decentralize and streamline personnel functions have been beneficial to the OCC and its employees.

Administrative Services Division

In 1985, the Administrative Services Division (ASD) improved the quality of services provided to the OCC. Office space was upgraded and the increased use of technology improved many of its operations.

New district offices in Kansas City and Chicago and new field offices in Denver and Newark were opened. Duty station upgrading continued as examiners moved into larger, more functional quarters in a number of locations. In addition, prototype duty stations that meet the needs of the SMS process were opened in Jacksonville, Florida and Austin, Texas. In Washington, a major renovation of the office space was concluded while upgrading of the 10-year old facilities continued.

ASD automation progressed in the past year. A Computer Assisted Design (CAD) system for office space design projects in the Washington Office was implemented. Plans for 1986 are to incorporate all office space designs into the system. A Lease Information Management System (LIMS) put into operation this year tracks all pertinent lease data for over 125 sites. Equipment was purchased and a contract signed to produce slides for presentations to bank boards of directors from examiner microcomputers at one-tenth of current costs.

Follow up visits were made to all districts to review the operation of the decentralization of the Procurement and Supply functions and provide assistance as needed. The disposal of excess personal property as a result of office realignment realized \$87,000 to OCC. Property inventories for Washington and the District Offices were completed this year, while field office and

duty stations inventories are scheduled. This process will result in a computerized tracking system for 15,000 pieces of property worth \$10 million.

ASD contract specialists have worked on several major projects this year, including the procurement of over 500 microcomputers and the establishment of an OCC ADP center. This included the acquisition of a facility, ADP equipment and communications and services. For the second year in a row, ASD contracted out one of its operations at a dollar savings to the office while making positions available for critical bank examination activities. A major effort to reorganize and upgrade the Central Records operation resulted in dramatic improvements in retrieval time, efficiency, and reliability. Over 800 boxes of materials were purged and sent to the Washington National Records Center for safekeeping, reducing records storage needs in the Washington Office.

All Washington Office photocopy equipment was purchased this year at a projected savings of \$300,000 over the next five years. Four new pieces of state-of-the-art printing equipment replaced outdated equipment to provide significant quality and productivity improvements.

In addition, Administrative Services continued to provide high quality professional administrative support to the OCC. The division is responsible for a wide range of day-to-day services, from carrying out the parking policy to responding to requests for assistance from management. During 1985, approximately 2,100 requests for purchases and contracts totaling \$17 million were processed, with contract negotiations saving over \$300,000. Over 400 tons of supplies and publications were shipped to district and field offices and examiners. Approximately 2,200 graphics, 1,600 printing, and 1,400 reproduction requests were filled. The library responded to over 1,300 requests for reference assistance, conducted 732 on-line searches, and purchased over 900 new publications. The division also negotiated and administered leases totaling \$10 million for space used by the OCC in Washington and around the country.

Equal Employment Opportunity—The Equal Employment Opportunity Office is responsible for monitoring EEO trends, affirmative action (AA) progress, and processing complaints of discrimination. The office also provides training, advice, and guidance to managers, supervisors, and employees on EEO and AA matters.

Overall, 1985 was a productive and effective year for the EEO program. The EEO Office developed an OCC EEO Award to be implemented in 1986 in recognition

of significant achievements in EEO. Four OCC employees received the Treasury EEO Award-of-the-Year based on the EEO Office's recommendations and the employees' achievements during 1984. The visibility of the EEO Office was greatly increased within and outside the OCC through nationwide training, publications, participation in personnel management evaluations, and the EEO Task Force. The EEO staff published an EEO and AA Handbook which informs all employees of their rights and responsibilities, a memorandum which provides an overview of the EEO program, and articles in the OCC newsletter on a regular basis. The coordination of EEO program responsibilities between the Human Resources Division and the EEO Office was greatly enhanced during this time. The office assisted Human Resources in revising the Recruiter Training Program Manual and associated forms, the PPM on recruitment, and performance standards for field positions to reflect greater EEO accountability for managers.

Generally, the Washington Office and districts made good progress in achieving their affirmative action plan objectives and FY 86 hiring goals. To assist managers in monitoring their EEO/AA efforts, EEO data was distributed to them on a quarterly basis, and they were required to submit accomplishment reports. Special emphasis program managers participated in the Treasury Women's Network and the D.C. Council of Hispanic Employment Program Managers to promote OCC as an employer and attract qualified female and Hispanic candidates.

During 1985, special priority was placed on updating the substance and format of the EEO training materials to cover a wide range of EEO/AA issues and to adapt the presentation to the participating audience. The EEO staff assisted OCC managers in reviewing and implementing training manuals, course outlines, and films. EEO training for managers and supervisors was conducted in the Midwestern, Northeastern, and Southeastern Districts. Informational presentations were provided to the Advisory Council and individual committees in the Central, Midwestern, Southeastern, and Western Districts. To increase cultural awareness and sensitivity, activities in commemoration of Black History Month were held for Washington Office employees.

New counselors and investigators were appointed and trained in some of the districts and the Washington Office. All employees were properly notified of the names and addresses of their counselors. Managers and counselors successfully resolving matters informally—only two formal complaints were filed.

Conference Office—The Conference Office plans, de-

velops and arranges meetings, conferences, and seminars for Washington personnel; advises the district offices; and arranges housing for district personnel temporarily assigned to the Washington Office. The office also prepares budget estimates and comparability studies to ensure cost-effective scheduling, locations and facilities.

In 1985, the office planned and arranged an OCC/FDIC combined meeting, district administrators' meetings, district management group meetings, and a District Counsel meeting. In addition to those major conferences, the office assisted the Training and Development Division in accommodating personnel on Washington-based task force assignments.

Policy and Planning

Bank Organization and Structure

Bank Organization and Structure (BOS) establishes and implements policies affecting corporate activities of national banks, and analyzes and processes requests from individuals and banks to engage in banking activities. BOS continued work in 1985 to revise and streamline licensing policies and procedures and to expand delegations of authority to district offices. New quality control and information systems were implemented during 1985 to support increasingly decentralized licensing operations.

Corporate Activity

The Corporate Activity Division is responsible for processing and deciding applications for new bank charters, mergers, consolidations, corporate reorganization, conversions of state banks to national banks, operating subsidiaries, branches, customer-bank communication terminals (CBCTs), bank office relocations, changes in capital and Federal branches and agencies of foreign banks. The division also evaluates and processes notices of change in controlling ownership of national banks and appraises stock held by shareholders dissenting to a merger in order to determine its fair value. Additionally, the Corporate Activity Division is responsible for coordinating district office and Washington processing of corporate applications.

The volume of charter applications filed with the Office declined dramatically in 1985 from the 1983 and 1984 levels. A review of charter applications in inventory, the volume of recent decisions, and prefilings scheduled at the various district offices indicates that the decline in number of applications will continue. The rate of denial of charter applications (approximately 25 percent) was up in 1985 compared to 1983 and 1984. A review of denied applications reveals that most were denied due to poor operating plans and/or deficiencies in the organizing groups. A third major reason for denial was the unacceptable condition of institutions with which the organizers were associated.

The decline in the volume of applications and the reasons for denying applications suggest that market conditions in various parts of the country have changed dramatically. Changes in economic factors, e.g., energy and agriculture, shifts in population, and changes in the level of general economic expansion, along with significant increases in competition have made once attractive markets into areas of intense competition and limited potential. We expect these trends to continue into 1986.

Noteworthy applications processed in 1985 included the following:

- Approval of a national trust bank to offer fiduciary and related services to foreign nationals residing or doing business in Miami. Some of the services to be offered, while not without precedent among national trust companies, are designed to attract overseas, particularly European, customers. Because the trust company would not accept deposits, it could not be insured by the FDIC and consequently would not be covered by the Change in Bank Control Act (CBCA). In light of an unusual ownership structure, including substantial foreign ownership, approval was conditioned upon the applicant agreeing to provide OCC with denial options parallel to those afforded by the CBCA.
- Several times in 1985 the Office rescinded its preliminary approval to open a new national bank because of significant new information that came to light during the organization of the proposed bank. In these cases the original approvals were often based on the banking record of several of the organizers and their association with other banks. Usually the bank in question was to be affiliated with the existing bank(s) through common ownership. The subsequent severe deterioration of these existing banks or the negative trends developing in them caused the OCC to reassess the capabilities of

the organizers and to question their management ability. The Office believed that in some instances it was preferable not to let the organization continue.

- On August 29, 1985, an application of First National Bank of Jackson, Jackson, Mississippi (FNB) to purchase the assets and assume the liabilities of Brookhaven Bank and Trust Company, Brookhaven, Mississippi (BBTC) was approved. This case presented significant market definition issues. The decision relied a great deal upon a zip code analysis of deposit accounts which showed that BBTC had over 80 percent of its deposit accounts in Lincoln County, Mississippi. The Department of Justice believed that the market should also include a city in an adjacent county. Such a determination would not have altered the Office's view of the competitive environment. Our analysis indicated that the overlap of deposit accounts between FNB & BBTC, in both the counties north and south of Lincoln County, including the adjacent city, was clearly minimal. Therefore, the application was approved.
- On February 21, 1985, the Office approved the application of Mark Twain Bank, National Association, to relocate its main office from Independence, Missouri to Overland Park, Kansas. Although the relocation was across state lines, the decision to approve was based upon an interpretation of 12 U.S.C. 30(b) which states that a national bank may change the location of its main office... "to any other location within or outside the limits of the city, town, or village in which it is located, but not more than thirty miles beyond such limits."
- In July 1985, the Office approved a branch application for Deposit Guaranty National Bank, Jackson, Mississippi, that would exceed the 100-mile branching limit established by Mississippi state law. Under state law, state commercial banks can only establish branches within a 100-mile radius of a bank's head office. However, branches of state savings and loan associations are not so restricted. The Office based its approval on the position that Mississippi savings and loan associations were "state banks" under 12 U.S.C. 36(c), which permits national banks to branch to the extent that "state banks" are allowed by state law to branch.

Licensing Policy and Systems

From 1981 to 1984 the OCC changed many policies and procedures in the corporate activities area. These changes reduced the paperwork and processing burdens on the applicant banks and the agency. They

also enhanced the ability of national banks to compete in the financial services marketplace.

During 1985, the Licensing Policy and Systems Division devoted a significant portion of its resources toward facilitating and completing adjustments to the many new policies and procedures adopted in the previous years. Experience with the new policies and procedures suggested some refinements were necessary. For example, refinements were introduced to the policies and procedures for charters, operating subsidiaries, application file management, background checks, notifications, extension policies, and conversions from brick and mortar to CBCT branches at the same site.

In addition to refining existing policies and procedures, new paperwork reducing policies and procedures were implemented. Principal achievements included:

- Implementation of new policies and procedures for applications for changes in capital and for issuances of subordinated debt. Under the new policy, routine applications receive a decision in no more than 30 days except for applications for increases in common stock. All routine common stock increases receive final approval within seven days of receipt of a notification from a bank indicating that it has complied with the statutory conditions required to effect the increase.
- Implementation of new merger procedures. The new procedures introduced a "Quick-Check Merger Screen." The Quick Check screens enables applicants to do a simple self-analysis of the effects on competition of their proposed merger. This saves applicants the time and expense required for an independently developed analysis of competitive effects. The Quick-Check screen also provides the OCC with a simple method of quickly identifying those mergers that clearly raise no significant anti-competitive concerns.
- Rescission of an Interpretive Ruling that required newly chartered national banks to obtain OCC approval to issue deposit accounts without service charges (e.g. free checking accounts).

In addition to the improvements in policies and procedures, two major initiatives begun in 1984 were fully implemented in 1985. The first was the implementation of a new computerized information system for the corporate activities area—the Licensing Information System. The second was a quality control system for the corporate activities area. Both enhance the efficiency and effectiveness of the OCC's performance in the corporate activities area.

Economic and Policy Analysis

The Economic and Policy Analysis Division (E&PA) supports the policy objectives of the OCC through analysis of the effects on national banks of proposed initiatives by the OCC, other regulatory agencies, the Administration, and the Congress. In addition, the division researches and monitors developments in the financial markets affecting the banking industry. The division also performs an in-house consulting function for other Washington divisions. The division's economists and financial analysts are divided into three units: Banking Studies; Financial Analysis and Statistics; and Financial Markets.

Banking Studies

The Banking Studies Unit conducts in-depth, quantitative research projects that explore policy issues of interest to the OCC; analyzes and critiques OCC supervisory policies and procedures; and examines how bank condition and bank structure are affected by developments in the broader financial services industry.

In 1985, E&PA began a study of the feasibility of risk-based capital requirements. The Banking Studies Unit contributed to that project by evaluating the capitalization of banks that ultimately failed, reviewing the capitalization of nonbank financial companies, and preparing an analysis dealing with the identification and categorization of the risk of various banking activities.

Banking Studies also analyzed the relationship between CAMEL ratings and bank financial statistics and presented its findings to OCC senior staff and the District Management Group; evaluated OCC's proposed risk scoring system; and tracked the composite CAMEL ratings of banks that eventually failed in order to determine how long prior to failure their deterioration would have been detected under revised measures of capital adequacy.

Financial Analysis and Statistics

The Financial Analysis and Statistics Unit of E&PA collects and analyzes financial data relevant to the banking industry. Using this information, the unit evaluates the financial performance of national banks and other financial institutions and prepares in-depth analyses of nonfinancial sectors of the economy and bank exposure to those sectors.

Over the past year, the unit prepared a detailed analysis of the financial condition of the banking system, including an evaluation of macroeconomic conditions and an analysis of sector and industry trends. This study was presented to Administration officials and the House and Senate Banking Committees. In addition, the unit under-

took an in-depth analysis of the farm sector and commercial banks with concentrations of farm loans. Its findings were presented to Treasury, the General Accounting Office, and House and Senate Banking Committee staffs. The unit also prepared slide presentations on risk-based capital for the Supervisory Policy Committee/District Management Group and for the Bank Capital Adequacy Conference sponsored by the *American Banker*.

Financial Markets

The Financial Markets Unit monitors and analyzes developments in financial regulation and the financial services industry in order to develop OCC policy positions. Unit activities include preparing Congressional testimony and accompanying briefing materials, monitoring the product and service powers and activities of financial institutions; and analyzing the implications of bank entry into expanded financial product and service areas.

In 1985, Financial Markets was responsible for preparing testimony for over a dozen Congressional hearings on a wide variety of subjects including the Bank Secrecy Act, nonbank banks, interstate banking, expanded bank powers, and deposit brokering. The unit also analyzed the implications of bank entry into nontraditional areas, e.g., real estate investment, insurance underwriting, and discount brokerage; compared allowable products and services of different financial services providers; and provided input and analysis to policy issues such as risk-based capital requirements, disclosure, and the resolution of failing bank situations.

Systems and Financial Management

Information Systems and Technology Division

Information Systems and Technology is composed of four organizational units to better serve the increasing technological demands of the OCC. The Office of the Director supervises the division and serves as the principal contact point for OCC users. The Systems Support Group is responsible for the agency's telecommunications network, both voice and data, as well as database support. The Applications System Development Group is responsible for developing and maintaining mainframe production systems used throughout the agency. The Operations and User Services Group provides both data entry and computer operations support.

Significant IS&T Division activities during 1985 included:

- Continued support and significant enhancement of a nationwide telecommunications network.

- Development, testing, implementation and maintenance of 50+ systems, including:
 - Licensing Information System
 - On-line Time and Travel Reporting System
 - Examination Scheduling System
 - National Bank Surveillance System
 - Consumer Complaint Information System
 - Automated Examination Generated Information System
 - Supervisory Monitoring System
- Research and development efforts in PC software.

Financial Management

The Financial Management Division promotes the efficient use of the OCC's financial resources. The division has three branches: Financial Planning and Analysis, Accounting and Funds Management, and Financial Review and Systems Management.

Financial Planning and Analysis develops, recommends, and implements and administers revenue and expenditure policy, performs financial analysis, designs and operates financial models, and directs the OCC's budget operation which includes coordination with the Treasury Budget Office, OMB, and Congress. In 1985, the Financial Planning and Analysis Branch:

- Implemented revised fees for OCC's programs and issued the first Notice of Comptroller of the Currency Fees.
- Enhanced the OCC budget process.
- Performed financial analysis of programs and projects in OCC to ensure OCC's maximum utilization of funds.
- Executed the 1985 operating budget and formulated the 1986 operating budget.

Accounting and Funds Management is responsible for managing the OCC financial reporting systems. This includes recording all OCC financial transactions, ensuring that the financial system effectively monitors resource utilization and forecasting activities, and providing financial reports for management. Additionally, the area manages the investment portfolio and relocation of personnel. During 1985, the Accounting and Funds Management Branch:

- Improved cash management activities by using the GSA Debt Collection Contract for efficient and cost effective collection of outstanding debts by former employees.
- Reduced outstanding standard travel advances by analyzing average employee reimbursements. The advance recovery was invested to increase investment income.
- Enhanced the microcomputer system for moni-

toring relocation authorization, commitments and expenditures from data base files to a menu driven system for operating efficiency.

Financial Review and Systems Management is responsible for quality control, internal control reviews, the Federal Managers' Financial Integrity Act reporting, reviews of budget, travel, relocation, and other payments for compliance in Washington and the districts, and the implementation of financial systems. In 1985, the Financial Review and Systems Management Branch:

- Coordinated the development and the implementation of the changes to the Time and Travel Reporting System.
- Started the implementation of a new accounts payable system. The Cullinet Accounts Payable module will enhance OCC's ability to manage its payment and disbursement processes.
- Developed a Quality Control Program that will review district financial operations. The scope of the reviews will include imprest funds, time and travel reports, budget and procurement, capital expenditures, payroll and cash receipts.

Strategic Planning

The Strategic Planning Division organizes the development, review and modification of the OCC Strategic Plan, administers the operations planning process, and develops periodic and specialized monitoring reports which chart progress against plan and provide a basis for management decisions regarding use of OCC resources.

During 1985, the division played a key role in development of an OCC Business Model and Strategic Systems Planning methodology. This was in response to the recognition of the importance of information management to the operation of the agency.

The operations planning cycle for plan year 1986 was completed with revisions and improvements based on last year's experience. With the help of other OCC staff, division staff modelled bank supervisory resource requirements and advised the Policy Group on resource allocations to OCC districts and Washington units. Improvements made to the regularly published Policy Group monthly and quarterly planning reports aided senior management in measuring progress against plan.

OCC managers continued to request specialized reports generated through the Time and Travel Reporting System, which tracks employee time expended in OCC functional areas defined through the planning process.

The Time and Travel Reporting System was improved by the addition of critical on-line query reports and design of standard reports based on user needs. Continued improvements in the system were achieved in cooperation with the Financial Management and Information Systems and Technology Divisions.

Management Systems

The Management Systems Division (MS) is responsible through the MIS Committee for planning and coordinating the development of administrative and supervisory information systems to support OCC programs and long term goals. The division reviews and analyzes the information needs of the Office and works with users to develop detailed logical data models for new application systems. The division's responsibilities also include the office automation, microcomputer, automated system risk management and automated security programs.

Under a reorganization proposed in 1985, the division will assume responsibility for data administration in 1986. The systems analysis function will be assumed by the Information Systems and Technology Division (IS&T).

MIS Planning—In close cooperation with IS&T, MS manages a consolidated Management Information System (MIS) plan for the OCC and oversees a continuing planning process to ensure the efficient use of modern technology in supporting the functions of the Office. During 1985, MS continued to refine the MIS planning process and coordinated the development of a strategic plan for MIS in response to rapid technological advancements and increased use of automated systems in the OCC.

In addition, the division provides administrative support for the MIS Committee which consists of senior OCC management. During the planning and budget process, MS reviewed, analyzed and consolidated information systems plans and requests from all units. The Committee, working with that material and recom-

mendations from MS, developed and approved a detailed office-wide MIS plan for 1986.

Data Administration—During 1985, a special task force developed a Strategic Systems Plan (SSP) for OCC that will provide a framework for future automated systems development. To ensure the successful implementation of SSP, the division will assume responsibility for data administration of OCC's data. Data administration will determine data requirements and standards and develop a logical data design to support IS&T's systems development efforts. The Data Administration Group was staffed in late 1985 and will become fully functional in early 1986.

User Systems Support—Throughout 1985 MS continued to coordinate implementation of the microcomputer program. OCC began 1985 with 288 microcomputers and by yearend had completed installation of nearly 1200 systems nationwide. All district offices have been fully configured and all initial training completed. MS successfully negotiated a new maintenance contract which will effectively reduce future costs while continuing a high level of service for users.

In the office automation (which includes all word processing activities) area, MS handled the installation and relocation of systems that resulted in increased sharing of systems and additional capabilities for users. Technical advancements were tested and evaluated for their applicability as a universal workstation for OCC users.

MS, working closely with District MIS Coordinators, coordinated the implementation and refinement of the Examination Scheduling and Tracking System (EXPRESS). Implementation in all district and field offices was completed in 1985. Further, EXPRESS was substantially redesigned to accommodate major changes in OCC supervisory strategies. Also during the year, MS played a key role in developing the Supervisory Monitoring System (SMS) specifications, and participated in the implementation and training for the pilot conducted in the Southeastern District.

Law Department

Litigation

In 1985, the Litigation Division participated in significant cases presenting challenges to OCC decisions which authorized national banks to offer new products

and services, approved applications for nonbank banks and branches, confirmed the OCC's authority to impose strict standards of director responsibility, and addressed the issue of the OCC's liability in closed or failed bank situations. The Litigation Division, along

with other divisions of the Legal Department, also devoted a significant portion of its resources this past year to the OCC's litigation against Calhoun First National Bank and T. Bertram Lance, the Bank's Chairman of the Board. For further information on this litigation see *Quarterly Journal*, Vol. 4, No. 4 (1985).

In a major decision affecting both banks and their customers, the Court of Appeals for the District of Columbia, affirming the district court, held that the OCC was correct in its interpretation of federal law in allowing two banks to enter the discount brokerage business. The court, however, ruled that offices of national banks offering this service are subject to the branching restrictions of federal law. *Securities Industry Association v. Conover*, 577 F. Supp. 252 (D.D.C. 1983), *aff'd*, 758 F.2d 739 (D.C. Cir. 1985). "Discount" brokerage is the purchase and sale of securities without the offering of investment advice. The Solicitor General, on behalf of the OCC, filed a petition for *certiorari* with the Supreme Court. The issue presented in the petition is whether offices of national banks that offer only discount brokerage services are "branches" within the meaning of Section 7(f) of the McFadden Act, 12 U.S.C. §36(f). "Branches" are defined in Section 7(f) "to include any branch bank, branch office, branch agency, additional office, or any branch place of business *** at which deposits are received, or checks paid, or money lent." The OCC takes the position that because a bank's discount brokerage offices would not receive deposits, pay checks or make loans, they would not fall within the statutory definition of "branch." The Solicitor General also filed a brief in opposition to SIA's *cert.* petition for a review of the Court of Appeals' decision to the extent that it held the Glass-Steagall Act (12 U.S.C. §§24(Seventh), 78, 377, 378) permits national banks to offer discount brokerage services. SIA's *cert.* petition was denied.

Another major development in the bank powers area came when the Investment Company Institute (ICI) challenged the OCC's approvals for certain major banks to pool Individual Retirement Account (IRA) trust assets. With the approval of each participating IRA settlor, the banks, which act as trustee of the separate IRA trust, commingle and collectively invest the assets of participating IRA trusts thereby creating collective investment trusts of which each establishing bank is both trustee and investment advisor. Such collective trusts give the IRA settlors the option of bank management of their retirement money, a benefit traditionally the exclusive reserve of larger trusts. There are three forums for the ICI challenge: the federal district courts in San Francisco, the District of Columbia, and Connecticut. The San Francisco court spoke first, handing down an opinion that voided the OCC's decision. An appeal was taken to the Court of

Appeals for the Ninth Circuit, and the argument took place on August 12, 1985. In the meantime, the D.C. federal district court upheld the OCC's decision, specifically rejecting the San Francisco court's ruling. ICI appealed the decision to the D.C. Circuit where the case was argued on December 11, 1985. In the Connecticut case, ICI's motion for a restraining order was denied, and oral argument on the merits was held on January 14, 1986. On January 21, 1986, the federal district court in Connecticut granted the OCC's motion for summary judgment.

The OCC's recent approval of Citibank's application to acquire a municipal bond insurer as an operating subsidiary has been challenged by representatives of the insurance industry. *American Insurance Association v. Selby*, No. 85-1489 (D.D.C.). The OCC filed a motion to dismiss the suit, and it was denied. However, one plaintiff, the Alliance of American Insurers, was dismissed for lack of standing. Challenged is the OCC's permission to Citibank to establish an operating subsidiary, either by the purchase of American Municipal Bond Assurance Corporation (AMBAC) or *de novo*, which will engage in the issuance of standby credits to support municipal bond issues. The OCC's position is that the standby credits would be equivalent to standby letters of credit, and so Citibank's proposal is in substance a standby letter of credit arrangement instead of an insurance arrangement, which is permissible under 12 U.S.C. §24 (Seventh).

The OCC's approvals of charter applications for so-called nonbank banks were challenged in federal district court in Florida by the Independent Bankers Association, the Florida Bankers Association, Community Bankers of Florida, and two national banks located in Florida. *IBAA v. Conover*, No. 84-1403 (M.D. Fla.). On February 15, 1985, the Court issued a preliminary injunction against the granting of future final approvals for nonbank banks. The injunction was based on the Court's preliminary determination that a nonbank bank, which refrains from either demand deposit taking or commercial lending, is not an entity that can be chartered under the National Bank Act. The case has been stayed pending the outcome of *Florida Department of Banking and Finance v. Board of Governors*, Nos. 84-3269, 84-3270 (11th Cir. slip op. May 20, 1985) (known as the "U.S. Trust case") in the Supreme Court. In *U.S. Trust*, the Eleventh Circuit held that national banks which refrain from making commercial loans are "banks" within the meaning of section 3 of the Bank Holding Company Act (BHCA). Under the rationale articulated in that decision, when a company acquires a nonbank bank, it becomes a bank holding company and the transaction is subject to Board approval under section 3 of the BHCA. On January 27, 1986, the Supreme Court vacated the decision and

remanded the case to the Eleventh Circuit for further consideration in light of its decision in *Board of Governors of the Federal Reserve System v. Dimension Financial Corp., et al.*, discussed *infra*.

In *IBAA v. Conover & Dimension Financial Corp.*, 603 F. Supp. 948 (D.D.C. 1985), the D.C. federal district court rejected IBAA's contention that OCC approvals of certain nonbank bank charter applications were subject to Federal Reserve Board scrutiny where no substantial BHCA issue existed. The D.C. federal district court stated that the holding in *IBAA v. Conover*, discussed *supra*, had no effect on the issues in the case before it.

Another significant case on the issue of nonbank banks was argued recently before the Supreme Court. *Board of Governors of the Federal Reserve System v. Dimension Financial Corp., et al.*, No. 84-1274. At issue is whether the Federal Reserve Board has the authority to expand the definition of "bank" in the BHCA to include not only conventional commercial banks that both offer "demand" checking and engage in commercial lending, but also nonbank banks that offer NOW accounts or that refrain from engaging in commercial lending but do conduct one or more of a variety of money market transactions, heretofore not considered to be commercial lending. The Tenth Circuit ruled against the Board. The Litigation Division participated in the preparation of an *amicus curiae* brief urging the Supreme Court to affirm the Tenth Circuit's decision. On January 22, 1986, the Supreme Court affirmed the Tenth Circuit by an 8 to 0 decision. For further discussion, see *Quarterly Journal*, Vol. 4, No. 4 (1985).

There were several important developments in the area of branching this past year. One such development was a decision by the Second Circuit upholding an OCC ruling that an ATM not owned or rented by a bank is not a branch of that bank. *Independent Bankers of New York and Canandaigua National Bank & Trust Co. v. Marine Midland Bank, N.A. and Wegman Food Markets*, No. 84-7424. The OCC filed an *amicus* brief in this case on behalf of itself and the Federal Reserve Board. Plaintiff filed a petition for *certiorari* with the Supreme Court, and the United States was asked by the Supreme Court to comment on the petition.

Another development involves a challenge to the OCC's approval of Deposit Guaranty National Bank's application to establish a branch at a location more than 100 miles from its headquarters in Jackson, Mississippi. Under Mississippi branching law, branching by state commercial banks is restricted to within a 100-mile radius of bank headquarters. Branching by

state savings and loan associations, on the other hand, is not restricted. The OCC based its approval on its position that Mississippi savings and loan associations are "State banks" under 12 U.S.C. §36(c), which permits national banks to branch to the extent that "State banks" are allowed by state law to branch. The district court vacated the OCC's approval, and the OCC filed an appeal with the Fifth Circuit.

In the area of director liability, a panel of the Seventh Circuit recently upheld an OCC order requiring bank directors to indemnify the bank for losses caused by their violation of the legal lending limit. *Larimore, et al. v. Conover*, Nos. 84-1971 through 84-1974. The court held that the directors were liable for the losses even though they lacked actual knowledge that they violated the lending limit. However, appellants' petition for a rehearing *en banc* was granted on December 24, 1985, vacating the panel's decision. According to the panel the directors "knowingly" violated the lending limit by failing to inquire about or investigate the amount of credit that the bank had already extended to the borrowers. In a dissenting opinion, Judge Coffey took the position that 12 U.S.C. §1818(b)(1) does not grant the OCC authority to impose personal liability upon directors and that, based on his reading of the administrative record, one of the directors could not be said to have "knowingly" violated the lending limit. Reargument occurred on February 6, 1986. Both the Litigation and Enforcement & Compliance Divisions have been participating in this litigation.

On August 14, 1985, the first final decision by any of the banking regulators under the Change in Bank Control Act of 1978 (CBCA), 12 U.S.C. §1817(j), was rendered by the OCC. The decision disapproved a proposed acquisition under the statutory grounds of "competence" (§1817(j)(7)(D)) and "financial condition" (§1817(j)(7)(C)). Following the decision, the proposed acquirer petitioned for review by the U.S. Court of Appeals for the Eighth Circuit, but the petition was dismissed for lack of timely filing. The OCC's decision therefore becomes the authoritative agency position on this statute. The decision analyzed the competency standard of the CBCA by noting that, if the acquirer's management of another bank has led to unsafe or unsound operations, this could be considered a factor in judging his competence under the CBCA. In its decision, the OCC defined competence to mean whether, in light of all the relevant facts and circumstances, the relative abilities of a proposed acquirer are adequate to manage or direct the bank targeted for acquisition. The OCC also found that the acquirer fell short under the standard of "financial condition" because he relied excessively on the earnings of the acquired bank to pay back the debt he would incur from the acquisition. Moreover, the OCC found that

other assets which might be relied upon were not clearly identified as belonging to the acquirer.

The Litigation Division has handled several cases addressing the issue of the OCC's liability for the failure or closing of banks under its supervision. In two suits arising directly and indirectly out of the Penn Square failure, the United States, which had been charged with tort liability under the Federal Tort Claims Act (FTCA), was dismissed as a third party defendant. *FDIC v. Jennings, et al.*, No. 84-1612-W (W.D. Okla., order, August 15, 1985); and *In re Continental Illinois Securities Litigation*, No. 82-C-4712 (N.D. Ill., memor. op. October 21, 1985). In these cases the FDIC was suing, among others, the outside auditors of Penn Square and Continental Illinois. The auditors initiated the third party complaints against the United States alleging that OCC had been negligent in its supervision. Both dismissals were based on the FTCA exemption for governmental activities which are discretionary, including regulatory activity. In addition, two suits were brought against the OCC challenging its decision to close Golden Pacific National Bank, located in the Chinatown area of New York City. The bank's holding company brought suit in the D.C. federal district court alleging that the closing violated its due process rights. Oral argument on the OCC's dispositive motion for a judgment on the pleadings was held on January 7, 1986. In a federal district court in New York, a class of 1,900 depositors sued the OCC alleging that the closing constituted discrimination against them. The Litigation Division plans to file dispositive motions in that case also.

The Division has handled several cases involving mergers and stock appraisals. In one case, the Seventh Circuit upheld the method by which the OCC appraises the stocks of dissenting shareholders. *Beerly v. Department of the Treasury*, 768 F.2d 942 (7th Cir. 1985). A petition for *certiorari* to the Supreme Court has been filed by the plaintiff.

As in previous years, the Division has represented the OCC in personnel cases and has advised the Human Resources Division on the litigation risks of proposed actions. During 1985, the Division also devoted a great deal of its resources handling requests for discovery pursuant to 12 C.F.R. §4.19. Much of this effort was in litigation and negotiation of the scope of these requests.

Enforcement and Compliance

The Enforcement and Compliance Division (E&C), in conjunction with the Districts, is principally responsible for recommending administrative actions in appro-

priate cases and for representing the Office in presenting and litigating these actions.

During 1985, the OCC initiated approximately 406 administrative actions, including 11 temporary cease and desist orders, 154 cease and desist orders, 229 formal agreements, 20 memoranda of understanding, 18 removal proceedings and 2 capital directives. In addition, the OCC issued 202 civil money penalties against directors or other individuals participating in the affairs of national banks and 1 civil money penalty against a national bank.

E&C also began five administrative hearings on enforcement matters in 1985. Two, involving substantial civil money penalties and removal actions, were affirmed by the Comptroller after favorable recommendations by the presiding administrative law judges. One is awaiting decision of the Comptroller, one is awaiting decision of the presiding administrative law judge and the remaining case is still in hearing.

During the year, the Division worked closely with representatives of the Department of Justice and bank regulatory agency task force to improve the criminal referral process and interagency communication. This effort led to the development and use of a new uniform criminal referral form. E&C also undertook modifications to its regulations which require national banks to report crimes.

In addition to presenting four white collar crime seminars for OCC examining staff, the division presented abbreviated versions of this seminar to selected examiners at staff conferences in three of the six districts. This course is designed to enhance the examiners' ability to detect, investigate and document criminal activity and related insider abuse within national banks. In 1985, E&C also was responsible for further enhancements of OCC's computerized system for monitoring criminal referrals and selected administrative actions. In support of compliance efforts in the Bank Secrecy Act area, the division also provided substantial legal support to the Chief National Bank Examiner's Office, both through assisting in the preparation of testimony before Congress and review, processing and coordination of referrals to the Department of Treasury and the law enforcement community.

Finally, the offshore shell bank unit of the Division worked with local, national and international law enforcement authorities by providing information and support and continued to alert the banking industry to existence of fraudulent and questionable practices in this area.

Securities and Corporate Practices

The Securities and Corporate Practices Division is responsible for administering and enforcing the federal securities laws affecting national banks, including the Securities Exchange Act of 1934 (Exchange Act) and the Comptroller's Securities Exchange Act Disclosure Rules, 12 C.F.R. 11 (Disclosure Rules). The division also administers and enforces the Comptroller's Securities Offering Disclosure Rules, 12 C.F.R. 16, which apply to national banks making public offers and selling their securities. Further, the division is responsible for administering the Office's enforcement program as it relates to bank securities activities, including violations of the federal securities laws involving bank municipal securities dealers, bank transfer agents and publicly traded banks, and other bank securities activities involving violations of the federal securities and national banking laws. The division has continuing responsibility for providing legal advice on provisions of the Glass-Steagall Act relating to bank securities activities, as well as certain provisions of the national banking laws affecting bank capital structure and corporate practices and the Comptroller's Trust Regulations which involve securities and collective investment activities of national banks. The division also provides interpretive advice on the Change in Bank Control Act of 1978 (CBCA) and provisions of the national banking laws concerning the corporate practices of national banks. Finally, the division is responsible for acting as liaison with federal and state securities regulatory agencies, including the Securities and Exchange Commission (SEC).

During 1985, the division was involved in activities and projects involving all of its major program responsibilities. In the disclosure area, the Office adopted amendments to its Securities Disclosure Rules to correspond with changes in SEC rules and regulations pursuant to Section 12(i) of the Exchange Act. The amendments update the Rules to take into account recent changes that have been made in SEC regulations. The amendments also reformat the Rules into a more logical form through the development of centralized bodies of nonfinancial and financial disclosure items, comparable to the SEC's Regulation S-K and S-X, to which the various disclosure forms for registration, periodic reporting and proxy solicitation pursuant to the Exchange Act make reference. The division continued to review numerous securities registration statements, annual and special meeting proxy materials, tender offer and beneficial ownership materials, periodic reports and other reports required to be filed with the Office pursuant to the Comptroller's various securities disclosure rules and merger application procedures. Finally, the division issued several interpretive letters concerning the construction of its securities disclosure rules.

In the securities enforcement area, the division pursued several enforcement proceedings and formal investigations. The division actively participated in suits brought on behalf of the Comptroller in federal district court seeking to enjoin several national banks and individuals from violating the securities laws. In two cases, the Comptroller had alleged that national banks had failed to file quarterly and annual reports with the Comptroller's Office, as required by the Exchange Act. Both banks were enjoined to make such required reports with the Comptroller. *Selby v. Huron National Bank, Rogers City, Michigan*, Civil Action No. 85-2686 (D.D.C. August 23, 1985), and *Conover v. Commonwealth National Bank, Mobile, Alabama*, Civil Action No. 85-0899 (D.D.C. March 19, 1985).

In *Comptroller of the Currency v. Central National Bank, Canajoharie, New York, et al.*, Civil Action No. 85-3177 (D.D.C. October 4, 1985), the Comptroller obtained a consent injunction with the filing of a suit alleging violations of the proxy, beneficial ownership reporting and periodic reporting provisions of the Exchange Act. The defendants were enjoined from further Exchange Act violations and the bank was required to rehold its 1985 annual meeting of shareholders.

In *Conover v. William G. Glenn, et al.*, Civil Action No. 85-1208 (D.D.C. April 16, 1985), defendants were enjoined from violating certain provisions of the securities laws and the Comptroller's rules governing tender offers and the solicitation of proxies in connection with the annual meeting of New World National Bank, Pittsburgh, Pennsylvania.

The Comptroller also brought a civil injunctive action against Calhoun First National Bank and T. Bertram Lance, the Bank's former Chairman of the Board, alleging violations of the reporting and proxy solicitation provisions of the federal securities laws. *Comptroller of the Currency v. Calhoun First National Bank, Calhoun, Georgia, and T. Bertram Lance*, Civil Action No. 85-2500 (D.D.C. August 29, 1985). The bank consented in early 1986 to the issuance of an order enjoining the bank from engaging in further violations of the federal securities laws and requiring the bank to amend past securities disclosure filings made with the Comptroller.

During 1985, the division conducted six formal investigations and several informal inquiries into possible violations of the national banking and federal securities laws by national banks and persons participating in the conduct of the affairs of national banks, including formal investigations into allegations of Exchange Act and Municipal Securities Rulemaking Board rule

violations involving four national bank municipal securities dealer departments. The Comptroller brought formal public administrative proceedings upon the completion of several of these investigations. *In the Matter of First National Bank and Trust Company of Tulsa, Tulsa, Oklahoma, et al.*, addressed a national bank municipal securities dealer department's failure to supervise the activities of its employees, resulting in findings of violations of several provisions of the securities laws and MSRB rules. Sanctions were imposed against the dealer department and several current and former employees of the bank. *In the Matter of Clyde E. Davenport and Ted A. Cruchon* involved the same set of facts. Respondents, both former employees of the bank, were found to have violated several provisions of the securities laws and MSRB rules and were suspended from association with any registered municipal securities dealer for periods of 140 days and 60 days, respectively. *In the Matter of Merchants National Bank and Trust Company of Indianapolis, Indianapolis, Indiana*, the Comptroller found the bank and several present and former employees of the bank violated several provisions of the securities laws and MSRB rules in that they caused false valuations to be made in the bank's securities portfolio, resulting in an overstatement of net income in call reports and periodic financial reports filed by the bank with the Comptroller. *In the Matter of Thomas Grove* involved the failure of a national bank municipal securities dealer principal to comply with MSRB rules requiring a national bank dealer department to report to another municipal securities dealer that it engaged in municipal securities transactions with an employee of that municipal securities dealer. Moreover, the national bank dealer department failed to provide the other municipal securities dealer with confirmations of the customer-employee's transactions, as required by MSRB rules.

In 1985, the division entered a consent Cease and Desist Order against Saddleback National Bank, Laguna Hills, California for alleged violations of the OCC's Securities Offering Disclosure Rules in connection with the bank's initial Offering Circular. The division also issued an interpretive letter addressing the requirements for utilization of the non-public offering exemption for a bank in organization. A formal agreement was executed with a national bank pursuant to 12 U.S.C. 1818 which, among other things, required the bank to ensure its compliance with Exchange Act provisions applicable to its corporate and mutual fund transfer agent activities and to review trust accounts where cash balances had not been properly invested and provide reimbursement and notification to the affected accounts.

During 1985, the division participated in significant

matters involving interpretations of the Glass-Steagall Act and other provisions of the national banking laws applicable to bank securities activities. The division participated in the Office's consideration and approval of two applications by national banks to establish collective investment funds for the collective investment of Individual Retirement Account trust assets.

The division also assisted in defending several lawsuits brought by industry associations challenging the Comptroller's authorization of new products and services by national banks. The division assisted in the Office's defense of an appeal of the decision in *Investment Company Institute v. Conover*, 596 F. Supp. 1496 (D.D.C. 1984), in which the legality of the Citibank common trust funds for Individual Retirement Accounts was upheld by the district court. The division assisted in the Justice Department's appeal of a comparable case, *Investment Company Institute v. Conover*, 593 F. Supp. 846 (N.D. Cal. 1984), in which the Comptroller's ruling authorizing the establishment of collective investment funds for individual retirement accounts was set aside. The division also participated in the defense of *Investment Company Institute v. Conover*, Civil No. H85-160-JAC (D.Conn. February 26, 1985), in which the legality of the Connecticut Bank and Trust Company, N.A. common trust funds for Individual Retirement Accounts was upheld. The case also is on appeal.

Further, the division assisted in the preparation of interpretive letters to national banks concerning the legality of a national bank contracting with third parties to provide brokerage service and limited investment advice on bank premises by means of the bank's employees and the permissibility of a national bank providing investment advice and discount brokerage in separate departments of the bank, subject to applicable conflict of interest limitations. Moreover, the division played a major role in preparing the Comptroller's comments to the Federal Reserve Board concerning third party commercial paper activities of commercial banks.

In the CBCA area, the division prepared the Comptroller's proposed rule requiring the Office to announce receipt of filings of notices of change in control and disclose certain summary information contained in the notices. In cases where the acquirer proposes to effect an acquisition of control by means of a tender offer, the rule, if adopted, would provide the Office discretion to keep confidential the acceptance for filing of the notice. The provision would take into account the requirements of the Williams Act amendments to the Exchange Act governing tender offers.

The Comptroller levied a civil money penalty in the

amount of \$10,000 against an individual for his violation of the CBCA. Payment of the penalty was suspended to two conditions. First, the individual was required to divest enough bank shares to bring his beneficial ownership of bank stock below 10 percent of the bank's outstanding shares. Second, if the individual committed another violation of the CBCA within a period of 5 years, he would be liable for payment of the \$10,000 penalty in addition to whatever penalty may be assessed for the subsequent violation.

Finally, the division prepared an interpretive letter setting forth those elements which the Office takes into account in determining whether a person may rebut the presumption of control raised by the CBCA.

Legal Advisory Services

During 1985, the Legal Advisory Services Division provided legal advice and opinions to the examining, policy, and administrative divisions of the OCC, its district and field offices, national banks, attorneys, and the public. Specific projects undertaken during the past year include the following.

Corporate Applications

- LASD advised Bank Organization and Structure (BOS) and wrote the Office's decision on Deposit Guaranty National Bank's application to establish a branch office. The decision required an extensive analysis of the term "State bank" used in the branching statutes and State law. On August 27, 1985, the U.S. District Court for the Southern District of Mississippi entered an order prohibiting the establishment of the proposed branch. The order is being appealed to the Fifth Circuit.
- LASD advised BOS and the Policy Group on a variety of merger issues and proposed merger transactions. One of the more unique proposals required an extensive analysis of issues involved in a reverse triangular merger.
- A variety of operating subsidiary applications were reviewed in LASD. The applications prompted a review of the legal issues raised by banks' participation in general partnerships, marketing data processing services as well as computer hardware and software, debt collection services, the underwriting and sale of municipal bond insurance, and introducing broker activities for agricultural and metal futures.
- The legal questions involved in two interstate main office relocations were analyzed in LASD. Mark Twain Bank's relocation was approved, making the bank's owner a multi-state bank holding company in states which were not par-

ties to any regional compacts. The decision addressed questions regarding the relocation statute, state law, and the jurisdiction of the Federal Reserve Board. (A Kansas State court enjoined the continued operation of the relocated main office and Mark Twain decided to cease operations as of yearend.) The second application involves similar issues but different state laws.

- LASD has provided the legal analysis for a large number of nonbank bank applications. Such analysis involves an evaluation of appropriate state law and possible preemption by federal law, the Commerce Clause, the jurisdiction of the OCC and the Federal Reserve Board, and the powers of state banking officials.

New Regulations

- LASD drafted a rule concerning bankers banks, institutions owned exclusively by other banks and created only to provide services to depository institutions, their directors, officers and employees.
- LASD drafted a proposed rule concerning private mortgage-backed securities.
- LASD assisted in and reviewed the simplification and revision of the Office's rules, policies, and procedures for corporate activities.

Supervision

- LASD participated in the development of standards for establishing director liability.
- An LASD attorney served as a Special Assistant United States Attorney to provide the Department of Justice with additional expertise in bank fraud prosecutions.
- LASD provided legal assistance in connection with the record number of bank closings in 1985.
- LASD supplied comments and advice to the City Council and the Mayor of the District of Columbia regarding a number of different banking bills under consideration in the District.

Administrative

- LASD provided ongoing legal services to the administrative side of the Office in the areas of personnel, procurement, EEO, and financial matters.
- The Office has recently acquired and housed a new computer system which will serve, among other things, to facilitate off-site and on-site supervision of banks. LASD supplied legal support in connection with the acquisition of the system and the leasing of space for its housing.
- LASD has also provided the Office with legal

advice on matters relating to the appointment and entrance on duty of the new Comptroller.

- The Office has been considering the appointment of an administrative law judge to deal with the growing hearing caseload. LASD has supplied ongoing advice on the legal implications of such an appointment.

Task Forces and Seminars

LASD has participated in task forces and working groups and has conducted a seminar for OCC staff

- The division served on the Resource Policy Review Task Force, assisting in the process of ensuring that the budget and planning process is in compliance with relevant statutes and regulations. LASD also reviewed and recommended modifications of OCC issuances, including over 50 sections from the Policy and Procedures Manual.
- LASD participated in a working group of the Depository Institutions Deregulation Committee to facilitate the impending termination of the Committee's work on March 31, 1986.
- LASD presented a seminar on the legal background for bank mergers to staff from the District Offices and from Bank Organization and Structure.

General Banking Questions

During the year LASD provided interpretive letters and memoranda on a variety of internally and externally generated questions concerning such matters as bank powers, lending limits, the international debt situation, real estate holdings and property acquired in satisfaction of debts previously contracted, affiliate transactions, adjustable-rate mortgages, and the Glass-Steagall Act.

Legislative and Regulatory Analysis

The Legislative and Regulatory Analysis Division has a legislative section and a regulatory analysis section. The legislative section offers legal advice to agency officials on pending legislation that may affect the banking system or the agency and it acts as counsel to the Comptroller in agency enforcement proceedings.

Legislative attorneys prepare briefing materials on legislative proposals, participate in the formulation of the agency's position on legislation, respond to Congressional inquiries, and draft legislation. They also participate in drafting Congressional testimony for the comptroller or his designated representative and maintain legislative resource materials. Legislative attorneys

maintain contact with Congressional staffs, representatives of other agencies, bank and trade association representatives, and others regarding proposed legislation. On occasion, they address various groups, including bankers' associations, bank counsel, and OCC staff members on legal and legislative matters.

During 1985, the legislative section participated in preparing testimony on a number of topics, such as the condition of agricultural banks, interstate banking, nonbank banks and mortgage-backed securities. The legislative attorneys reviewed various proposals regarding farm credit and possible relief for agricultural banks and the farm credit system. They also reviewed legislation dealing with interstate banking, deposit insurance, government securities regulation, as well as other topics. The staff actively participated in an interagency group developing legislation to implement the recommendations of the Task Group on Regulation of Financial Services (the so-called "Bush Task Group"). The legislative section also developed a number of items for the OCC's legislative program.

As counsel to the Comptroller in formal agency proceedings, the legislative attorneys advised the Comptroller regarding the applicability of the Change in Bank Control Act and the use of civil money penalties for violations of banking law. They also reviewed requests that the Comptroller hold public hearings in the course of formal agency proceedings.

The regulatory analysis section of LRAD identifies laws, regulations, policies, and supervisory practices which are burdensome, obsolete, or inconsistent with other requirements. It ensures compliance with the regulatory review and improvement requirements imposed on agencies by the Paperwork Reduction Act, Executive Order 12291, the Regulatory Flexibility Act, and the Financial Regulation Simplification Act. Responsibilities include developing measures of regulatory costs and benefits, offering alternatives for securing regulatory objectives, and representing the OCC before the Treasury Department and the Office of Management and Budget (OMB) in order to secure approval for regulatory changes and paperwork matters.

During 1985, LRAD offered assistance or advice in the development of 17 notices which appeared in the *Federal Register*. The section also guided the preparation of approximately 19 Paperwork Reduction Act review requests (for forms, reports, surveys, rulemakings, etc.) and 13 Executive Order 12291 review requests (for rulemakings only).

At the end of 1985, there were approximately 16 rulemakings under development, including the Corporate Applications Review and Evaluation (CARE) Pro-

gram (12 C.F.R. 5), and changes in the current public disclosures required of national banks.

In addition to LRAD's ongoing program of reviewing each existing and proposed regulation, reporting requirements, and banking issuances from a cost/benefit and practical utility standpoint, this section prepares the annual Information Collection Budget and the Semiannual Agenda of Regulatory Actions.

LRAD is responsible for the administration of OCC's Conflict of Interest Policies and the Treasury Department's Minimum Standards of Conduct. In this connection, LRAD reviews all Confidential Statements of Employment and Financial Interest filed annually by Washington-based personnel. LRAD also promotes compliance with ethics standards and applicable laws by educating new and current OCC employees in this area.

Industry and Public Affairs

Banking Relations Division

The Banking Relations Division acts as liaison with bankers, state bankers associations, banking trade groups, and state bank supervisors.

The division provides analysis, advice and counsel to the Comptroller and senior policy makers and is responsible for identifying proposed regulatory and industry actions that relate to Office activities. The division formulates specific approaches for ensuring that OCC's position is presented and appropriate information is disseminated.

The division recommends new policies, concepts and procedures to guide OCC in its relationship with the banking industry. It prepares and directs the preparation of a broad variety of briefing materials for use in meetings with OCC officials and banking industry groups. It also assists with the preparation of testimony or presentations for the Comptroller and senior policy makers.

The division is responsible for developing and maintaining a state-by-state indepth analysis of all banking legislative initiatives and major issues, including existing, proposed and potential legislation.

Communications Division

The Communications Division provides information and publications services. Information services include press releases, responses to press inquiries, general inquiries relating to the agency's mission and requests under the Freedom of Information and Privacy acts.

The Director of Communications serves as liaison between the Comptroller and the press. News releases are issued on significant OCC actions and on

testimony before Congress by the Comptroller and the OCC staff.

In addition to producing OCC publications, the division also maintains subscription lists for the *Comptroller's Manual for National Banks*, various examination handbooks and major publications. The division issues and maintains banking and examining issuances, interpretive letters and administrative directives. In addition, the division produces the *Quarterly Journal*, the newsletter *SuperVisions* and compiles the *Daily News Digest*.

Under authority delegated by the Comptroller, the division is responsible for making initial determinations on requests for records of the OCC under the Freedom of Information Act and the Privacy Act of 1974. In 1985, 1,224 such requests were processed.

Customer and Industry Affairs Division

The Customer and Industry Affairs Division is the liaison between the OCC and bank customer groups, as well as the insurance, real estate, securities, and other nonbank financial industries. The division provides analysis, advice and counsel to the Comptroller and senior policy makers and is responsible for identifying proposed regulatory and other actions that relate to office activities. The division recommends new policies, concepts and procedures to guide the OCC in its relationship with bank customer groups and the nonbank financial industries. It maintains a monitoring system to help division staff recognize and report on the impact of external environmental factors/risks. The division also manages the OCC's Community Development Corporation (CDC) program and coordinates the OCC's consumer affairs activities (with the exception of consumer complaints which are handled by the Consumer Examinations Division).

During 1985, the division continued to improve the lines of communication and dialogue between the OCC and community, consumer, small business, insurance, real estate, and securities groups.

The division planned and organized meetings with bank customer organizations in each of the six OCC Districts throughout the country. The meetings were held as part of the office's public outreach responsibilities to identify and address banking issues of concern to bank customer groups regarding federal regulation and supervision of national banks and changes in the financial services industry. The meetings also provided an opportunity for senior OCC decision makers to have a direct dialogue with consumer, community, and small business representatives to discuss issues of concern to their constituencies. Summaries of each of the six meetings will be distributed to the meeting participants, all national banks in each district, and to other interested parties in early 1986.

The division also planned and organized a national conference, "The Changing Shape of Retail Banking: Responding to Customer Needs." The conference objectives were to help all participants adapt to the changing financial services environment and understand the evolving role of the bank customer, and to encourage open communication between the banking industry and leaders of consumer, community and small business organizations. Almost 250 people attended the conference, including bankers, representatives of national, regional and local consumer, community and small business organizations, and representatives from federal and state financial regulatory agencies, national and state banking organizations, and Congress and the press. A conference publication was prepared and distributed widely to the banking industry, bank customer organizations and other interested parties.

During the past year, the division wrote two Banking Issuances. The first was on Branch Closings and Reductions in Service (BC-189, dated February 20, 1985) to remind national banks of the importance of developing and implementing effective written policies and procedures for branch closings and reductions in service to minimize any adverse effect such actions have on a bank's community. The second was on Basic Banking Services (BC-206, dated August 23, 1985) to encourage more national banks to voluntarily provide basic banking services to their customers.

The division significantly enhanced the OCC's Community Development Corporation Program (CDC) during 1985. In September the office cosponsored a

national CDC Conference in Cleveland, Ohio that was attended by more than 200 bankers, CDC officials and others. Bank inquiries for information regarding CDC's increased fivefold during the year, the largest number ever recorded in the history of the program. Over 10 bank CDC proposals were under active consideration during the year and four banks' investments in CDC's were approved.

In addition, the division contributed to and distributed a publication which summarized the Roundtable on Small Business Lending and Private Secondary Markets which explored innovative ways to expand the availability of long-term financing for small business. The Roundtable was jointly convened by the OCC and the National Federation of Independent Business (NFIB) with a diverse audience drawn from small business and the banking, insurance and securities industries.

Finally, the division provides staff support to the Comptroller in his capacity as a statutory member of the board of directors of the Neighborhood Reinvestment Corporation (NRC) and is the agency's liaison with the Department of the Treasury's Consumer Affairs Council.

Congressional Liaison Division

The Congressional Liaison Division is responsible for this Office's relations with Members of Congress, Congressional committees, subcommittees, and staffers.

The division provides analysis, advice, and counsel to the Comptroller and senior OCC policy makers on Congressional activities which affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential Congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with Members, committees, subcommittees, and staffers to further communication and understanding and to ensure that OCC's interests are represented.

The division is the focal point for all Congressional inquiries, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to Congressional actions, as well as responses to constituent inquiries.

Finally, the division provides other necessary liaison and information services relating to Congressional and legislative matters.

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Remarks by Jonathan L. Fiechter, Director, Economic & Policy Analysis Division, before the *American Banker* Conference on Bank Capital Adequacy, New York, N.Y., October 28, 1985

The level of capital in U.S. banks has once again become an area of major concern for banks and their supervisors. Banks assert that from the perspective of the marketplace, they have more than adequate capital. Bank supervisors, on the other hand, argue that the presence of federal deposit insurance and the existence of a lender of last resort limit the effectiveness of market discipline in ensuring that individual commercial banks maintain adequate capital. Therefore, bank supervisors believe that setting minimum capital standards is an important function.

Reasons for Emphasis on Capital

There are several reasons for the recent emphasis on capital adequacy. As is well known, the competitive and economic environment faced by banks has become more difficult. Deposit rate ceilings have been effectively eliminated on most retail deposits, while at the same time, nonbank competition for those deposits is growing.

The economic environment is also less forgiving—the economy has experienced back-to-back recessions and structural difficulties persist in sectors such as energy, real estate, agriculture, and shipping. As a result, loan losses in the banking industry have risen steadily in recent years, exceeding the growth in bank earnings. In 1979, national banks' earnings were equal to eight times loan losses. By year-end 1984, the earnings coverage had declined to two and one-half times losses. In this economic climate, capital is increasingly viewed as an important safety cushion to absorb unanticipated losses.

The importance of capital as an indicator of a bank's viability is supported by our analysis of recent bank failures. I am aware of the arguments that the capital of many failed banks, at least book capital, is virtually indistinguishable from that of surviving banks. In fact, a review of recent failures of national banks shows that up until the year before failure, the majority of failed banks had capital-to-asset ratios that closely approximated those that did not fail. Hence, one might be led to believe that the capital position of a bank is not an important determinant of whether or not that bank will fail.

However, this analysis suffers from a major flaw—it compares the ratio of book capital to assets and makes no attempt to measure real capital. To demon-

strate this point, we adjusted the capital and assets of national banks to reflect those assets criticized during examinations. In essence, we subtracted from both capital and assets the expected losses associated with problem assets.

When this was done, the adjusted ratio provides a much more precise separation of failed banks from nonfailed institutions. We found that, as early as 2 years before failure, the adjusted ratio of the median failed bank was lower than 75 percent of all viable banks. In other words, once capital was adjusted to reflect the increased risk represented by classified assets, the capital-to-asset ratio became an important early warning signal in predicting bank failure.

For these reasons, bank supervisors have placed much more emphasis on capital levels. After declining during much of the 1970s, the industry's capital-to-asset ratio has been rising since 1980. This reflects, in part, recent pressure by bank supervisors for more capital, including regulations issued this spring that increased required capital for the largest banks. Thus, while all sizes of banks have added capital in recent years, the most significant increases have been in the largest banks.

Simple Capital-to-Asset Ratio

The recent attempt by the bank supervisors to strengthen the banking system's capital base by increasing simple capital-to-asset requirements, however, has raised several legitimate concerns. First, as a general matter, the overall profitability of the industry, as measured by return on equity (ROE), has been under pressure in recent years. The ROE in the national banking system has fallen 25 percent since 1979. This has limited the ability of many banks to generate capital, both externally and internally, at a time when bank supervisors are pressing for higher levels.

A second problem with simply raising capital requirements is that the present capital-to-asset rule ignores differences in asset quality and liquidity. Treating all assets as if they are of equal risk may have an unintended effect on bank behavior.

If capital requirements are raised, a bank's return on assets (ROA) must also be increased if it is to maintain the same ROE. One obvious way for a bank to

increase its ROA is to increase the proportion of higher yielding assets on its books. It may replace lower yielding, less risky assets with higher yielding and relatively more risky assets. The result may be that a bank assumes a higher level of risk while keeping the dollar size of its asset base constant.

Similarly, under the present capital rule, a bank can seemingly strengthen its capital position by shrinking its balance sheet through the sale of high quality and relatively liquid assets such as government securities, residential mortgages, and car loans. There is some evidence that the balance sheets of banks, especially large banks, are becoming less liquid and possibly more risky. The proportion of bank assets held in cash and government securities has declined fairly steadily from 22 percent in the late 1970s to less than 13 percent in 1984. Yet, under the current capital rule, capital requirements may not fully reflect this shift to less liquid assets. For these reasons, high capital-to-asset ratios may not always be indicative of a strongly capitalized bank.

High capital requirements may also make it difficult for banks to compete for low risk borrowers. Banks must charge a sufficiently high margin over their cost of funds to cover their cost of capital. This makes it difficult for banks to price their loans to low risk customers at a rate that is competitive with the commercial paper market and the other domestic and foreign lenders, many of which are subject to lower capital requirements. So long as all assets require the same amount of capital, there is an incentive for banks to invest in higher yielding, and therefore higher risk, assets.

A third deficiency of the present capital rule is that it does not explicitly take into account the risks posed by off-balance sheet activities. Such activities include loan commitments, standby letters of credit, note issuance facilities, foreign exchange activities, interest rate swaps, use of options and futures, and fiduciary obligations.

Through the use of off-balance sheet instruments, such as standby letters of credit and interest rate swaps, banks are able to assume credit and interest rate risk without booking an asset, and therefore, are able to avoid an explicit capital cost. In fact, many banks, particularly large banks, are increasingly relying on off-balance sheet activities to augment their earnings. The use of standby letters of credit has risen rapidly since 1978 while new forms of off-balance sheet activities have proliferated since 1980. Nevertheless, under the current capital regulations, capital requirements do not reflect the increased reliance on off-balance sheet sources of income.

It may be argued that such guarantees are generally issued only to high quality customers and, therefore, pose relatively little credit risk. Moreover, only a small percentage are ever exercised. On the other hand, when guarantees are exercised, it typically means that the borrowers have run into financial difficulty. As a result, the credit risk of such guarantees would be higher than the typical commercial loan. If some external event causes a number of "guaranteed" borrowers to exercise their standbys simultaneously, the issuing bank may itself run into funding problems.

This is not to say that off-balance sheet activities are viewed as harmful to the banking industry. They often meet legitimate business needs. But, to the extent that they represent a potential call on a bank's resources, they represent a risk and thus require an allocation of capital.

The current system of capital regulation is also flawed in that there is no explicit recognition of interest rate risk, the stability of a bank's funding sources, or the risk-reducing potential of asset diversification. Therefore, the use of simple capital ratios to compare two banks or to evaluate the financial condition of a bank over time may be misleading.

Risk-Based Capital Policy

For the reasons outlined above, simply increasing the capital-to-asset ratios for banks may not be the most effective way to strengthen banks' capital base. The OCC is exploring a risk-based approach to capital that would base minimum capital requirements on the overall riskiness of a bank's activities. Under such a system, banks of similar asset size, but with different amounts of risk, would have different minimum capital requirements.

A bank's minimum capital requirement might be based on (a) an assessment of the credit risk posed by broad categories of assets and off-balance sheet activities, (b) the level of interest rate risk, and (c) the liquidity risk of the balance sheet including funding risks arising out of liability concentrations. Most importantly, low risk assets such as cash and Treasury securities would require relatively less capital than assets such as commercial loans. A loan sale with strict limits on any recourse to the selling bank might also qualify for a lower capital requirement than if the loan were to remain on the bank's books. Concentrations of credit exposure would trigger supplemental capital requirements.

A related benefit to this approach could be that it will enable us to better approximate the real net worth of commercial banks. To the extent that it provides

supervisors with a more accurate mechanism to judge the condition of individual banks, it will allow us to recognize and react to problems sooner. In those instances where a troubled bank is judged not to be viable, *i.e.*, the bank's owners are unable to maintain some minimum capital level, steps could be taken to deal with the situation before the bank's real net worth is exhausted.

As a practical matter, such a proposal would have to remain relatively simple. Efforts to become too precise in measuring risk—for instance attempting to measure the *ex ante* credit risks associated with different types of commercial lending—run the risk of becoming quickly obsolete, even when the initial assessment is accurate.

Remarks by H. Joe Selby, Acting Comptroller of the Currency, before the Swiss-American Chamber of Commerce, Zurich, Switzerland, November 4, 1985

"Bank Supervision in the U.S.: The New Challenges"

I appreciate the opportunity to share my views on some important developments that are changing the nature of banking and bank supervision both in the United States and in other nations.

We are all increasingly aware of how the financial markets of the world are inextricably linked. Technology has made instantaneous overseas communication a reality. Billions of dollars can be moved from one continent to another in less than a minute thanks to satellite communications. What appear to be isolated developments in one country can have worldwide repercussions. European's concerns over the course of U.S. interest rates and currency values grow with each report of the U.S. Congress's inability to reduce our budget deficits. Foreign investors got a crash course in the American financial system and learned that there is a world of difference between private deposit insurance funds in Ohio and Maryland, and the Federal Savings and Loan Insurance Corporation.

The emergence of a truly global economy is underscored by the recent efforts of the bank supervisors of the industrialized countries to work together in an effort to develop more coordinated supervisory processes. A significant achievement has been the success of the Cooke Committee in developing a framework for the supervision of international banking. Most important was the 1983 Concordat developed in the wake of the Banco Ambrosiano affair establishing principles of

In further exploring a risk-based capital proposal, the bank supervisors will need the cooperation and support of the banking industry. In particular, we will need your comments on the basic concept. We are interested in your views on:

- the operational feasibility of risk-based capital requirements;
- the fairness questions inherent in different methods of distinguishing among risks assumed by banks;
- whether there are other, more effective ways to differentiate among banks with different risk profiles; and finally
- whether regulators should become tougher in terms of dealing with weak institutions before their book capital is exhausted and, if so, how.

international supervisory responsibility that ensure that banks are supervised on a worldwide consolidated basis. The Committee is presently developing standards for members of the BIS dealing with the treatment of off-balance sheet items, capital adequacy, and bank liquidity.

Today, I would like to focus specifically on the condition of the U.S. banking system and on the challenges facing bank supervisors in the United States. Given the global nature of the economy, it's no wonder that there is increasing concern about the condition of U.S. banks.

Let me assure you that the overall condition of the U.S. banking system is sound. In fact, it is my belief that the success with which our banking system is adapting to the changes in the financial environment is testimony to the system's resilience.

Structure of the U.S. Financial System

As you know, the United States has a highly decentralized financial services industry. Looking only at federally insured depository institutions, there are 15,000 commercial banks, 3,000 thrift institutions, and 18,000 credit unions. Historically, the various depository institutions have played distinctly different roles in the financial system with banks lending primarily to commercial enterprises, thrifts financing housing purchases, and credit unions providing consumer credit.

Although such specialization is still prevalent, many of the statutory barriers that created the distinctions have been relaxed, and the differences among institutions are blurring.

The supervisory structure in the U.S. exhibits a similar degree of diversity. There are three federal chartering agencies, each with supervisory responsibility over the institutions it charters, separate deposit insurers for commercial banks and savings associations and credit unions, and the Federal Reserve System which implements monetary policy and shares in the responsibility of regulating the banking system. Additionally, each state has supervisory authority over the institutions it charters.

In the United States, we have a unique method of ensuring the safety and soundness of our banking system. For the most part, our laws and regulations do not attempt to prevent banks from taking risks. Public confidence in our banking system is assured through our federal deposit insurance system and through public disclosure and integrity of financial statements. Safety and soundness are achieved through supervision.

With these facts in mind, I'd like to focus my remarks on the challenges facing bank supervisors in the United States. Although I'll be discussing those challenges within the context of developments now affecting the U.S. banking system, they are relevant to bank supervisors in other nations as well.

Pressures Affecting U.S. Banks

As most of you undoubtedly know, bank failures in the U.S. are high by historical standards. Last year 78 banks failed and through the end of October of this year, 95 banks had failed. Although these numbers are high, they are still much lower than comparable rates of failure in other U.S. industries. Moreover, it would be incorrect to take the position that in a system of 15,000 banks, every bank failure is inherently bad. The failure of a poorly operated bank is a natural consequence of a dynamic and competitive economy.

Having said that, let me point out some of the pressures currently affecting U.S. banks. Those pressures emanate from several sources.

First, a number of banks are experiencing an increase in the number of problem loans they hold because of their exposure to weak sectors of the economy. In particular, banks with loan concentrations in agriculture, commercial real estate, or energy loans and those banks with large portfolios of loans to LDCs are suffering from reduced earnings. Weakened by high

levels of problem loans, these banks are also increasingly vulnerable to other problems. The record shows that banks that have failed in recent years are typically beset by difficulties that extend beyond problems of asset quality. In many cases, for example, insider abuses or fraud coupled with weak management precipitated the failure.

These problems, important as they are, are not particularly new ones for bank supervisors and are being addressed through standard supervisory techniques. Through a combination of reviewing general developments in the banking industry, computer-enhanced monitoring of developments at individual banks, and on-site examinations we are able to direct our attention first to those institutions that pose the greatest risks to the banking system and second to those that appear to be particularly unstable.

The second source of pressure on U.S. banks—and the one which I believe poses the greater challenge to bank supervisors—is the rapid pace of change taking place in the industry. Again, I would emphasize that these challenges are not confined to the U.S. banking system. Through conversations with bank supervisors from other nations, I have learned that they too are having to come to grips with changes in their banking industries.

The factors responsible for these changes are, by now, well known. Banks offer products and services that were practically unheard of 10 years ago. These include interest-bearing transaction accounts, interest rate swaps, futures and options, discount brokerage services, and adjustable-rate mortgage-backed securities. The virtual elimination of deposit interest rate restrictions in the U.S. has enabled depository institutions to offer market-rate deposit accounts that span the maturity spectrum. Technological advances have changed the way products are delivered. Automated teller machines and telephone bill paying, to name just two new services, are now commonplace at U.S. banks.

At the same time, numerous nonbank competitors have entered lines of business that were once the exclusive domain of banks. Merrill Lynch, the developer of the cash management account, now owns a bank and combines banking services with a wide range of other financial services including securities, insurance, and real estate activities. Sears Roebuck and Company, the nation's largest retailer, has offered insurance for decades, and now owns a securities firm, a real estate broker, a thrift, a commercial bank, and has begun to offer a credit card that will compete directly with bank cards.

Each edition of the financial press seems to report on a new entrant into the financial services industry. Ford Motor Company recently purchased a nationwide savings and loan association. Chrysler purchased a consumer finance company from a large bank holding company, and General Motors has acquired two mortgage companies in the past year.

Additionally, the economic environment is far more volatile and uncertain than ever before. In short, the world of banking has become more complex, and banks now face risk on a variety of fronts.

As banking has become more complex, bank management has been granted greater flexibility in making decisions. This greater flexibility has enhanced banks' ability to adjust to and profit in the changed environment. Along with this added flexibility comes increased potential for losses and, therefore, accountability. Not surprisingly, some banks do very well in this environment while others make serious mistakes and even fail.

Supervisory Response to the Changing Environment

The challenge facing bank supervisors is to reorient our approach to shift greater accountability to banks and to enlarge the role of the marketplace in seeing that banks are prudently operated. As supervisors, it is not our role to protect banks from whatever losses may result from unsuccessful undertakings. Rather, our emphasis must be on ensuring that banks have adequate internal controls and policies in place that enable them to manage that risk.

A particularly important reflection of these changes is the expanded role that bank directors must now play. As the bank shareholders' representatives, it is their responsibility to set overall policy and determine the direction the bank will take. In cases of failed institutions, we carefully review the performance of bank directors. Where negligence is discovered, the FDIC has not been reluctant to take legal action against the directors.

For directors to meet their responsibilities, they will need high quality information on the operation of their banks. We believe that the ability of directors to take responsibility for the operation of their institutions can be enhanced by information made available through audits performed by independent accountants. To this end, we recently instituted a number of policies aimed at increasing the number of banks receiving annual audits. These include requiring annual audits for new banks that are not members of an audited holding company. We are also selectively requiring audits of

problem banks that exhibit poor internal controls, and requiring the board or audit committee of each national bank to analyze the adequacy of its external audit coverage.

Another aspect of bank accountability involves exposing banks to the judgments of the marketplace. Currently, the attention of security analysts is, for the most part, limited to the larger banks in our system. We want to increase all banks' exposure to market discipline. Two steps that we are taking that will increase such exposure involve increased disclosure and the development of risk-based capital standards.

As supervisors increasingly rely on private sector discipline, bank depositors and security holders will play an important role in seeing that banks are prudently operated. To do that, they will need access to complete, accurate, and timely information about banks' operations. I recently signed a proposed regulation laying out comprehensive disclosure requirements for national banks to enhance the ability of the private sector to monitor banks' performance and reduce the likelihood that markets will react to incomplete or inaccurate information. As a proposed regulation, it is subject to amendment following a comment period during which we will hold public hearings.

Our proposal is patterned after existing disclosure requirements for national banks and bank holding companies under the Securities Exchange Act. Banks would have to prepare periodic disclosure reports and file them with the OCC, including annual reports, quarterly reports, and current reports. They would have to notify depositors and security holders that reports were available and provide copies upon request without charge. Among other information, the reports would include:

- a five-year summary of key financial data;
- management's discussion and analysis of financial condition and results of operations;
- information on any major litigation involving the bank, including administrative actions taken by the OCC; and
- a list of directors and executive officers and information on executive compensation and insider transactions.

Similarly, initiatives regarding risk-based capital requirements now under study at the OCC and other bank supervisors—both in the U.S. and other nations—are another means of enhancing the role of the private sector. Capital requirements that explicitly recognize differences in the risks assumed by different bank activities will result in different capital requirements. This in turn will require bank managers, for the

first time in many cases, to allocate capital according to an activity's risk. Bankers will have to satisfy themselves and their stockholders that the earnings potential of a risky activity justifies its capital cost.

Supervisors Need Additional Tools

In addition to taking steps to increase market discipline, we will need new tools to deal with problems when they do occur. I'd like to briefly discuss two new tools that would, I believe, enhance our ability to ensure systemic safety in this new environment. They involve the removal of the management of problem banks and the timing of the closing of failed institutions.

Currently, when a bank is identified as having severe problems and we have exhausted our usual means to remedy the situation, our ability to require significant changes in an open bank's management or operations is limited. Typically, we cannot step in and merge a weak bank with a strong bank until either its book capital or liquidity is exhausted.

Removal of incompetent management before it does irreversible damage is critical. Of course, the primary responsibility for ensuring that a bank is run by competent people lies with the bank's board of directors. However, for those instances when directors are unwilling or unable to exercise their responsibility to provide sound management, I believe that supervisors must have adequate authority to deal with management problems.

Under our current procedures, our ability to effect management changes is limited. Through administrative actions we can require banks with problems to analyze their management needs and, in some cases, to hire new management. Under current law, however, the procedures for actually removing management are cumbersome and the standards are often difficult to meet. As I recently testified before the U.S. Congress, we believe that it would be appropriate to revisit the existing laws in this area to increase the supervisor's flexibility to deal with ineffective management.

Providing bank supervisors with the flexibility to close problem institutions earlier would reduce the costs to the public (and the Federal Deposit Insurance Corporation) of bank failures. Ideally, a failed bank would be closed at exactly the point when the owners' capital had been exhausted. Assets would be just sufficient to cover liabilities, and neither the Federal Deposit Insur-

ance Corporation nor other creditors would suffer any losses. Unfortunately, to do so would require precise measurements of the market value of assets and liabilities. Lacking these, banks are typically closed when book capital is exhausted. This generally results in failed banks having negative economic net worth. In other words, by the time we close a bank under existing policy, the market value of its assets are usually less than the outstanding claims against the bank. As a result, the Federal Deposit Insurance Corporation, and sometimes creditors and uninsured depositors, suffer losses.

Such losses could be minimized if we had greater flexibility in dealing with open banks that were determined not to be viable over the long run. I favor adopting a policy that would give us the authority to require a bank's owners to seek a merger partner or to liquidate the bank if they failed to keep a bank's capital above a particular level, say 3 percent. Providing the regulators with such authority would facilitate the evolution of a more consolidated banking system without severe disruption.

Summary and Conclusion

In summary, I see the challenge facing bank supervisors as having four important aspects. First, we must take steps to ensure that we have systems in place to accurately assess the risks that banks are taking and to make sure that there are procedures in place to control those risks. Second, bank management and directors must be held accountable to their shareholders. Third, we must seek ways to enlist the private sector in making sure that banks are prudently managed. Our initiatives in the areas of disclosure and risk-based capital are directed toward that goal. Finally, we must have strong tools at our disposal to deal forcefully with problem situations to ensure that they do not adversely affect systemic safety and soundness.

In conclusion, I'd like to emphasize that the changes that are affecting the worldwide banking industry provide real benefits to the users of financial services and present new opportunities for providers of those services. It would be a severe mistake for bank supervisors—and for the banking industry—to oppose these forces of change. Rather, I see the supervisor's role as facilitating the adaptation of a previously heavily regulated industry to this more competitive environment.

Statement of Craig M. Stirnweis, Deputy Comptroller, before the Senate Subcommittee on Administrative Practice and Procedure and the Subcommittee on Courts of the Committee on the Judiciary, Washington, D.C., November 12, 1985

Mr. Chairman and members of the Subcommittees, I appreciate the opportunity to appear before you to discuss the views of the Office of the Comptroller of the Currency concerning proposed changes in the bank supervisors' treatment of problem farm loans and on legislation that would change the bankruptcy laws as they apply to family farmers. Under consideration are changes that would increase the number of farmers able to qualify for some of the relatively less cumbersome and less financially burdensome provisions of the bankruptcy code and would allow some family farmers to maintain control over property they might otherwise have been compelled to liquidate. Providing additional time for family farmers to file a reorganization plan and to make payments under that plan has also been proposed.

While this Office shares the Congress' concern about the condition of the agricultural sector and the plight of family farmers, we have serious reservations about attempts to resolve the situation through changes in the bankruptcy code or through changes in the OCC's supervisory approach to problem farm credits.

Farm lenders and farmers have a mutual interest in promoting a healthier agricultural sector. Changes in the treatment of family farm bankruptcies, however, would not resolve the underlying causes of the agricultural sector's problems. They would do nothing to improve the income-earning capacity of farm borrowers. Changes to the bankruptcy code could, however, have unintended adverse effects on farm banks and local farm economies.

Furthermore, we do not believe that bank examination guidelines should be revised, even if the bankruptcy code is amended. More lenient supervisory treatment of loans to bankrupt farmers would seriously distort the bank's reported financial condition without improving the fundamental problems in the agricultural sector.

The Futility of Short-Term Remedies

The financial condition of farm lenders reflects the financial health of the agricultural sector, and both have been poor and worsening. Increases in farm bankruptcies and nonperforming loans to farmers have depressed bank earnings. Return on assets at agricultural banks has fallen 28 percent since 1980. In

June of 1985, 610 agricultural banks reported losses, an increase of 160 percent in less than 2 years.

The OCC is confident that the problems facing agricultural banks are manageable. However, efforts to facilitate bankruptcy for family farmers may unintentionally imperil the financial viability of farm creditors. The greatest impact would be on problem agricultural banks where delayed payments and depleted collateral values could seriously erode their earnings and liquidity. At present, 12 percent of all agricultural national banks are considered by the OCC to be problem banks. An additional 25 percent of agricultural national banks are receiving special supervisory attention.

Agricultural banks are dependent on their farm borrowers for timely repayment, just as the farmers are dependent on the banks for loans. Consequently, it is to the benefit of both banks and farm borrowers to reach mutually agreeable solutions when farm borrowers face temporary difficulties in meeting their payment commitments. The OCC is concerned about changes in bankruptcy law that may substantially limit the ability of banks heavily exposed to farmers to realize timely payments on outstanding credits or limit their ability to work out problem loans.

Farmers experiencing difficulties in meeting their financial obligations typically negotiate with their bankers (and perhaps other creditors) in an effort to resolve their financial problems. If the lenders judge that a borrower has the capacity to generate sufficient revenues during the normal course of business to repay the debt, the debt might be restructured or additional credits could be extended. Filing for bankruptcy can destroy efforts to reach mutually satisfactory solutions and replace a cooperative spirit with an adversarial relationship. Changes in the bankruptcy law could also diminish the incentives for farmers facing transitory cash flow difficulties to negotiate a mutually satisfactory workout with their creditors.

The OCC is also concerned about the harmful effects the proposed legislation could have on the ability of farm banks to serve their local economies. Banks must continue to pay interest on deposits even if they do not receive interest payments on their loans. Proposed changes to Chapter 11 could result in the suspension of payments on outstanding debt for more than a year.

Under Chapter 13, repayment for family farmers would be extended for up to 10 years.

Fortunately, agricultural banks historically have had higher capital ratios than non-agricultural banks and have therefore been largely able to absorb the losses on farm loans. Nonetheless, if agricultural conditions continue to deteriorate and farm bankruptcies and nonperforming loans to farmers increase, the viability of many more agricultural banks could be threatened.

These developments may also impinge on the ability of affected banks to extend new loans to agricultural borrowers. The majority of bank loans to farmers are operating loans. Extending to 10 years the repayment period for an operating loan substantially reduces its value to a bank that had been expecting repayment within a year. In addition, collateral, in many cases crops or farm equipment, declines substantially in value and may become all but worthless over such an extended period. The resulting reduction in earnings and liquidity may impair banks' ability to meet the credit demands of their communities.

Even banks with sufficient liquidity to extend additional loans would probably restrict their agricultural lending if the likelihood that family farmers would file for bankruptcy were to increase. When evaluating loan applications, bankers will, by necessity, become very selective in extending agricultural loans. Credit will become unavailable, or available only at rates that incorporate a substantial risk premium, to marginal borrowers.

The Role of Bank Supervision

It has been suggested that agricultural banks not be required to recognize losses associated with problem farm credits. For example, in the report on the Family Farmer Bankruptcy Act of 1985 (H.R. 2211), which, I should note, the Administration opposes, the House Committee on the Judiciary "urges bank regulators to avoid requiring banks to automatically charge-off loans as soon as the borrower files bankruptcy." In fact, OCC policies do not require automatic charge-off of loans to borrowers who have filed for bankruptcy. However, it is reasonable and prudent for a bank to reevaluate loans to any borrowers, including those filing for bankruptcy, when repayment is uncertain or is likely to be protracted.

The primary purpose of bank supervision is to preserve the safety and soundness of the banking system. To assure institutional soundness, we examine loan portfolios and classify loans when it appears they will not be repaid in part or in total. Failure to reflect accurately the value of assets or to recognize known

losses would seriously distort the bank's reported financial condition and income while doing nothing to ameliorate the fundamental problems in agriculture.

Examiners evaluate loans on the basis of the source of repayment, the quality and adequacy of collateral, and the ability and demonstrated willingness of the borrower to repay the loan. When problems are identified, loans are classified as substandard, doubtful, or loss. Standards are applied consistently to all loans, regardless of industry.

The fact that a loan is classified by an examiner does not change the financial capacity of the borrower. It should not be interpreted as an indication that the bank should cease work out efforts and proceed with foreclosure. It is simply a reflection of the examiner's judgment that the quality of the asset is impaired. Banks, not supervisors, decide how to obtain repayment.

The only time that the OCC requires a bank to take a particular problem loan off its books is when that loan is considered uncollectible and therefore classified a loss. In cases in which there is some likelihood that a portion of the loan may be repaid, the entire credit will not be written off; the loss may be partial. Again, bank management decides what actions, if any, to take to achieve recovery.

It is to be expected, however, that a bank will be more conservative in its treatment of credits and in its attitude toward extending new credit to outstanding borrowers that have filed, or are likely to file, for bankruptcy. Bankruptcy does impair the value of a credit by reducing the likelihood of timely repayment, reducing the value of a loan's collateral, and by changing the cooperative relationship between the bank and its borrower to an adversarial one. It should be reemphasized, however, that even after bankruptcy, adverse examiner classifications are the result of a judgment of the impaired credit, not the declaration of bankruptcy.

Conclusion

Assisting farm borrowers by relaxing bankruptcy law may have negative effects on farm creditors and local farm economies without improving the long-term viability of the affected farm borrowers. Such legislation may have the unintended effects of impairing the financial condition of agricultural banks, disturbing the provision of banking services to the community, lessening the need of farmers with temporary cash flow problems to work out mutually satisfactory arrange-

ments with their creditors, and reducing the availability of farm credit.

Furthermore, changes in bankruptcy law ought not to affect bank supervisory procedures. To maintain a

sound banking system, examiners must accurately assess the condition of banks. If we fail in this regard, it will erode confidence in our financial system. Lenders, farmers and regulators have a mutual interest in restoring the health of the farm economy.

Statement of Jonathan L. Fiechter, Director, Economic and Policy Analysis Division, before the House Subcommittee on Economic Stabilization of the Committee on Banking, Finance and Urban Affairs, Washington, D.C., November 21, 1985

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to talk to you about the condition of agricultural banks. As you are well aware, our agricultural sector is going through a difficult period and the problems experienced by farm borrowers over the last few years have had a direct effect on agricultural lenders. Both federal and private lenders have experienced a dramatic increase in the number of problem agricultural loans. We believe, however, that the credit quality problems currently facing agricultural banks are manageable and do not threaten the safety and soundness of the national banking system.

The Agricultural Sector's Problems

American agriculture is going through a difficult period. However, the problems are not universal among farmers. The problems of the agricultural sector are generally concentrated among farmers who highly leveraged themselves in the 1970s.

In the previous decade, the nation's farm sector enjoyed expanded production. Domestic sales grew steadily at an average annual rate of almost 9 percent. Exports increased almost 19 percent annually in response to a weak dollar and foreign production shortfalls. As a result of this growth, farm revenue expanded at an annual rate of 10 percent.

The improved income of farmers during the 1970s boosted expected returns on farm assets, and drove up land values. The enhanced net worth of farmers, combined with optimistic expectations of further increases in farmland and commodity prices, prompted many farmers to borrow heavily to expand. In many cases, heavy borrowing took place despite sluggish growth in cash flow. Between 1970 and 1981, both farm debt and the price of farm land quadrupled.

Beginning in the early 1980s, however, it became clear that earlier expectations about the strength of the farm economy would not be realized. The worldwide

recession, an appreciating dollar, and the export policies of competing countries all contributed to a decline in agricultural exports. Furthermore, stagnant commodity prices, high real interest rates, and increased production costs led to a deterioration in farm profitability and diminished cash flow. As the expected returns on farming declined in the 1980s, the value of farmland also began to fall.

Most farmers, despite a less robust agricultural environment, have generally been able to meet their debt servicing requirements. According to Federal Reserve Board analysis of a 1985 USDA Survey of Farm Costs and Returns, presented in recent testimony before this Subcommittee, 70 percent of commercial farm operators are considered to be in "good" financial condition. That is, 70 percent of these farmers have a favorable combination of income and equity cushion.

A minority of farmers, however, who heavily leveraged themselves in the 1970s, have inadequate cash flow to meet their higher debt servicing requirements. As can be seen in Chart 3, debt servicing capacity declined considerably over the 1970s. By 1984, cash flow coverage of interest expense was one-third of what it was a decade earlier. The result has been a deterioration in farm credit quality, particularly for highly leveraged farmers.

According to USDA data of January 1985, farmers with debt-to-asset ratios in excess of 40 percent represent less than one third of all farms, but owe almost two thirds of all farm debt. The significant rise in problem agricultural loans and farm bankruptcies can be attributed primarily to this group of farmers.

These financial problems appear to be concentrated among mid-sized farms, those with annual sales of between \$40,000 and \$500,000. Many of these farms have experienced several consecutive years of operating losses making debt repayment difficult, especially for those that became overextended in the 1970s.

Commercial Bank Exposure to the Farm Credit Problem

The problems experienced by farm borrowers over the last few years have had a direct effect on a variety of private and public agricultural lenders. We do not believe, however, that problems in the agricultural sector have endangered the safety and soundness of the banking system.

The banking sector's direct exposure to the agriculture sector is limited to slightly over 2 percent of total commercial bank assets. The banking system holds approximately \$50 billion in direct loans to the farm sector, which is roughly one-fourth of the total farm debt.

Half of the \$50 billion in commercial bank credit to the farm sector is held by commercial banks with diversified loan portfolios. These include small banks that do little agricultural lending as well as large banks that have sizable agricultural loan portfolios but also lend in other areas. Because these banks are diversified, they are generally able to absorb the losses attributed to the deteriorating condition of agricultural credits.

The other half of the agricultural credit extended by the commercial banking system is held by 3,900 agricultural banks, defined as banks with over 25 percent of their gross loans in agricultural credits. Agricultural banks have average assets of about \$30 million and are typically much smaller than non-agricultural banks. Although they comprise 27 percent of the commercial bank population, they hold less than 5 percent of the total \$2.6 trillion in bank assets. These banks, 850 of which are national banks, have been the most susceptible to problems in the agricultural industry.

Primarily as a result of the growing credit quality problems with farm loans, the condition of national agricultural banks has deteriorated. An increasing proportion of national agricultural banks are problem banks (i.e., have CAMEL ratings of 4 or 5). In mid-1983, 18 percent of problem national banks were agricultural banks. However, as of June of this year, agricultural banks accounted for 37 percent of problem national banks. This increase in the number of problem national agricultural banks accounts for most of the increase in the number of problem national banks over the past few years. Of the 26 national banks that have failed thus far this year, eight, or about one third, have been agricultural banks.

As of June 1985, 157 national agricultural banks reported negative net income as problem loans continued to rise. National agricultural banks' ratio of

median classified assets to gross capital funds reached 48 percent in June of this year. This was up from 35 percent 1 year ago and 28 percent 2 years ago. In contrast, the ratio for non-agricultural national banks has risen only slightly over the past 2 years from 20 percent in mid-1983 to 23 percent in mid-1985.

Furthermore, net loan losses, as a percentage of gross loans, have been rising for each of the past 5 years. In 1979, median net loan losses were less than .25 percent of gross loans. As of year-end 1984, however, median net loan losses as a percentage of total loans had risen to .75 percent.

The problems of many agricultural banks, while serious, must be kept in perspective. The majority of agricultural banks are healthy and viable. The typical agricultural bank, with an average primary capital-to-asset ratio of 10.5 percent, continues to be better capitalized than its non-agricultural counterpart, which has, on average, a 9.5 percent primary capital-to-asset ratio.

This does not diminish the fact that the condition of a number of agricultural banks is poor and requires serious supervisory attention. We recognize the costs to a local community of any bank failure. However, we do not believe that the current number of bank failures nor the problems associated with the agricultural sector currently pose a threat to the confidence in, or the stability of, the commercial banking system.

Federal Policy Regarding Farm Credit Problems at National Banks

A number of the proposals addressing the agricultural situation have suggested financial and other assistance for agricultural lenders including commercial banks. We do not believe that federal assistance for commercial agricultural banks is necessary at this time. We believe that targeting assistance to those banks with large agricultural loan portfolios is undesirable from the point of view of public policy.

First, the assets of agricultural banks in difficulty are not a significant portion of the banking system. Moreover, the majority of these banks are in sound financial condition.

Second, we are confident that the problems facing national agricultural banks are manageable through standard supervisory techniques. To evaluate the condition of individual institutions, we examine loan portfolios and classify loans when it appears that repayment of the loan will require careful attention from bank management. Additionally, through examinations we

evaluate the adequacy of management's systems and controls and identify areas of management weakness.

Through special training for examiners who deal primarily with agricultural banks and through quality control procedures that ensure consistency of the evaluation of agricultural credits, we have enhanced our ability to accurately assess the condition of agricultural banks. We have not, however, adopted any special examination procedures to treat problem agricultural loans any differently than other loans. Such measures would lead to financial statements and earnings reports that present a distorted picture of the bank's performance and health, in direct conflict with our primary mission of ensuring systemic stability.

Third, agricultural bankers, with the support and encouragement of their supervisors, are pursuing work-out plans in an effort to resolve their farm borrowers' financial problems. For example, when a lender and farm borrower in financial difficulty expect that there will ultimately be sufficient revenues to repay an outstanding debt, the debt may be restructured and additional credit extended to facilitate a return to profitability. While this in itself will not remove a particular loan from classified status, we believe such work-out strategies represent a prudent banking practice when based on realistic projections of the farmer's ability to generate income. Satisfactory adherence to the restructured schedule will result in loans being removed from problem status.

Finally, we feel that such assistance could have longer-term detrimental effects on the banking system. Federal assistance could establish a precedent for other economic sectors to seek legislative relief from adverse credit conditions. Banks that have extended

credit to the energy industry, the timber industry, and commercial real estate developers, for example, might seek similar legislative relief.

Such assistance would also inadvertently penalize those agricultural banks that have already marked down their loan portfolios and taken the brunt of their losses. Furthermore, it would send the wrong signal to the majority of agricultural banks that are successfully coping with the problems of the farm sector. Their incentives for carefully working their way out of problems would likely be diminished if there was a promise of government help.

Conclusion

The deteriorating condition of many agricultural banks is a result of structural changes within the nation's farm sector. It may be unrealistic to view those changes as temporary in nature and to expect asset values and commodity prices to return to the levels of the late 1970s in light of a number of developments, including a dramatic slowdown in inflation and the increased productive capacity of a number of foreign countries. The decline in farm land values reflects market pressure to restore asset values to a level that can be supported by the land's ability to generate income.

Resolution of the agricultural bank problem, therefore, is dependent upon farmers and farm lenders adjusting to the structural changes in the agricultural sector. Farm borrowers and banks are currently working together to reach mutually agreeable solutions to loan repayment difficulties. We are confident that through the current efforts of the banks, their borrowers, and their supervisors, the problems currently facing agricultural banks will continue to be manageable.

Statement of John F. Downey, Chief National Bank Examiner, before the House Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, Washington, D.C., December 12, 1985

Mr. Chairman and members of the Subcommittee, we are here today to provide the views of the Office of the Comptroller of the Currency (OCC) on the impact of faulty and fraudulent real estate appraisals on national banks, and to discuss OCC's policies and procedures regarding appraisals. Our comments primarily concern the commercial real estate area. The Subcommittee posed numerous specific questions in its letter of December 3, 1985. To the extent feasible within the timeframe, we have addressed these questions in an attachment to this statement. Accompanying me today is William J. Stolte, Jr., Deputy Director, Multina-

tional and Regional Bank Supervision.

The OCC shares the Subcommittee's concern regarding real estate appraisals. Real estate loans, particularly those to the commercial real estate sector, are becoming increasingly troublesome for many national banks. The quality and timeliness of appraisals is just one of many factors that could be contributing to real estate loan problems.

To fully appreciate the emerging difficulties regarding the use of real estate appraisals by national banks, the

changing market environment must be considered. For several decades, with only very brief exceptions, appreciation in real estate values was a fact of life. In any lending or investment decision, property values could be counted on to increase and the only uncertainty was the exact rate of appreciation.

In recent years, however, significant changes have occurred in the U.S. real estate markets. In most areas, property appreciation has slowed and declining property values have become a reality. In some areas the declines are severe.

This changing environment clearly alters the role and importance of the real estate appraisal. In the past, while appraisals played a role in evaluating the initial extension of credit, failure to update appraisals generally did not adversely impact the institution. Even if there were potential problems from initial appraisals that overestimated property values, these would have been mitigated by subsequent appreciation of the collateral property. However, in today's environment of oftentimes declining property values, maintaining a current, accurate appraisal is essential to judging the value of the real estate loan portfolio.

For national banks, our experience is that failure to obtain real estate appraisals at the inception of a loan is not a significant problem. The major problem is the lack of continual reappraisals of collateral values. The importance of accurate real estate appraisals and reappraisals was reinforced to OCC examiners and the banking industry on October 30, 1985 with the issuance of Examining Circular 234, "Guidelines for Troubled Real Estate Loans."

Another factor that has increased the importance of continued maintenance of quality appraisals for banks is a change in the type of financing provided by banks. Historically, commercial bank involvement in construction lending for commercial real estate was predicated on firm takeout commitments from financially responsible third parties. However, changes in the marketplace have resulted in greater retention of commercial real estate loans on the bank's balance sheet. Because of this, it has become more important to banks and their shareholders that real estate values be accurately appraised on an ongoing basis.

Clearly, prudent appraisal policies are important, particularly in today's real estate market. However, it would be misleading to place undue emphasis on the appraisal issue when explaining the difficulties national banks are experiencing in the real estate area. While real estate collateral provides support to the collectibility of a credit in the event of a borrower's default, we have stressed that the most important

factor in extending real estate credit is to ensure that loans are granted with the reasonable probability that the debtor will be able and willing to meet the repayment terms. Failure to follow this practice at a loan's inception may be viewed as unsafe and unsound regardless of the security value and favorable ratio of collateral value to the outstanding loan. In short, the financial capacity and creditworthiness of the borrower take precedence. Forced liquidation of real estate collateral to repay the loan is, at best, a last resort.

Thus, while the OCC has found some instances of faulty appraisals, as will be discussed in the attached answers to the Subcommittee's questions, losses in national banks' real estate portfolios are primarily attributable to other factors. These often include both inadequate loan policies at the time the loan was granted, and inadequate supervision of the loan and collateral after it was granted. In all probability, not all credit and collateral factors such as the borrower's repayment ability, the amount lent as a percentage of appraisal value or purchase price, and the value of the real property over the anticipated life of the loan were taken into consideration.

The exposure of national banks to the real estate area is of concern to the OCC, and we are taking steps to address the issue. As the Subcommittee is aware, we conducted a special survey in August 1985 of banks and bank holding companies that are active in real estate lending in order to obtain better data on the nature and extent of the problem. We are currently completing targeted real estate examinations in a portion of these banks. Further, we are continually providing guidance to our examiners in evaluating real estate activities at national banks. This guidance has included an increased emphasis on real estate appraisals, due to the recent deterioration in many property values.

In conclusion, the OCC recognizes the importance of banks obtaining accurate appraisals in today's more volatile economic climate. We will continue to adapt our procedures and information-gathering as conditions warrant. However, I wish to point out that it remains the ultimate responsibility of a bank's management and board of directors to ensure that their institution's policies and practices are adjusting to the evolving marketplace. The OCC's objective is not to substitute its judgment for bank management's in making lending or most other decisions, including those involving appraisals and appraisers. Rather, it is to ensure that a bank's policies and practices are safe and sound.

Attachment

Answers to the Subcommittee's questions posed in the December 3, 1985 letter of invitation to testify follow.

A. OCC's experience and data on faulty or fraudulent appraisals:

1. The OCC has not found that faulty or fraudulent appraisals are a significant factor in placing national banks in problem status or causing them to fail. In fact, we do not maintain records or reports on faulty or fraudulent appraisals because they occur infrequently.

When we do encounter problems with real estate appraisals, it usually involves the bank's failure to maintain current appraisals, appraisals that are incomplete, or appraisal assumptions and projections that do not conform to current market conditions.

We recognize the importance of banks maintaining accurate appraisals of collateral values, particularly with loans to industries experiencing problems such as real estate, and have conveyed this to OCC examiners and national banks through Examining Circular 234, "Guidelines for Troubled Real Estate Loans." Only through proper identification of losses, which often depends on an accurate assessment of collateral value, can the true condition of a bank be determined.

2. The OCC is currently performing targeted real estate examinations in a number of banks. The banks were selected because each had a significant volume of real estate loans and because survey information indicated that these banks were lending in areas identified as troubled real estate markets. Information about the presence and/or extent of appraisal problems is not presently known, but should be available shortly.

3. The OCC also conducted a real estate survey of 60 banks and bank holding companies in August 1985. The purpose of this survey was to obtain information that would be helpful in assessing the potential risks these institutions are exposed to in the real estate area. Our findings indicate that:

- A majority of the construction loans are in the higher risk non-residential construction area, such as office buildings and retail stores, and in land development.
- Permanent lender take-out commitments are on a decline, which is a significant change from past practices.

- Minimal amounts of internally criticized real estate loans were reported.
- Reappraisals on construction projects to reflect current market conditions were rare.
- Open-ended construction loans, which do not require take-out commitments prior to construction, are on the increase. This is a change from past practices.

B. OCC's general policies and requirements concerning appraisals and appraisers:

1. The OCC's policies, practices and procedures concerning appraisals and appraiser performance are mostly contained in sections of the *Comptroller's Handbook for National Bank Examiners* that concern mortgage banking. These include: Section 213, "Real Estate Loans," Section 214, "Real Estate Construction Loans" and Section 219, "Other Real Estate Owned."

In addition, the OCC's policies are expressed in examining circulars. For example, a recent examining circular, "Guidelines for Troubled Real Estate Loans," directed examiners to carefully review appraisals and ensure that they reflect the current market value of the collateral and to criticize the bank in cases where current fair market appraisals were absent. This issuance was also disseminated to the banking industry.

2. There is no regulatory requirement for national banks regarding real estate appraisals because we believe that a bank's management is in a better position to decide what specific appraisal policies and practices are appropriate based on its own circumstances. Nevertheless, banks engaged in real estate lending are expected to have sound real estate appraisal policies and procedures. We expect this to include appraisal reports prepared by independent, qualified fee or staff appraisers who are knowledgeable about relevant markets. The absence of satisfactory appraisal reports may result in loan classification and may be considered an unsafe and unsound banking practice warranting administrative action.

3. The purpose of the reappraisal is to establish the current market value of the property. The information provided by current fair market value appraisals is essential for banks to properly assess risk in the loan portfolio and accurately present their financial condition. When OCC examiners identify problems, the OCC has sufficient powers to require banks to obtain reappraisals.

4.(a) There are no legal requirements concerning acceptable appraiser qualifications and independence for national banks. The OCC believes that this is the responsibility of a bank's board of directors and

management, who are better informed about the nature of a bank's activities and the risks they pose.

4.(b) OCC examiners generally consider an appraiser's qualifications to be adequate if he or she belongs to a reputable professional association such as the Society of Real Estate Appraisers or the American Institute of Real Estate Appraisers, both of which prescribe qualifications for their members. The services of appraisers belonging to these associations are frequently used by banks when larger, complex credits are involved. When a bank uses the services of appraisers who are not members of professional associations, an examiner expects the bank to provide sufficient documentation that an appraiser's qualifications, independence and reputation are in conformance with the established standards of recognized appraisal organizations.

5. There are no legal restrictions regarding out-of-area real estate loans by national banks. However, the Community Reinvestment Act of 1977 encourages banks to meet the credit needs of their local communities consistent with safe and sound operations.

Based on our experience, most small banks do not engage in a large amount of out-of-area lending activity because of the inherent additional risks in those types of loans. Such activity is normally limited to participations in larger credits made by and serviced by larger correspondent banks. It is the bank's responsibility to assess the reputation and expertise of the other bank prior to entering into a loan participation. Additionally, at the time a bank enters into a loan participation, it is expected to review all credit and collateral information on the borrower as if it were originating the credit. OCC examiners review the bank's procedures to determine whether loan participations are purchased in a safe and sound manner.

For larger banks engaged in out-of-area lending, OCC examiners review the bank's documentation of the credit to ensure appropriate studies of the market area are conducted and that the bank has expertise in the particular type of lending and market environment.

C. OCC examination requirements and practices concerning appraisals and real estate loans:

1.(a)-(b) The frequency with which the OCC's examination includes a real estate review depends upon: the potential risk the real estate activities pose to the bank; the condition of the bank; the bank's past experience in this area; and the bank's internal control procedures.

When the examiner-in-charge targets the real estate

area for review, the procedures delineated in Section 213.3 are used as guidelines by the examiner. These procedures include the Real Estate Loan section of the Internal Control Questionnaire (Section 213.4). This questionnaire is aimed at determining whether the bank's administrative and accounting controls are prudent and whether they are being applied. Where the examiner concludes that a bank's internal control procedures or program of internal audit are inadequate, the examiner will criticize the weakness and the OCC will take appropriate action to ensure correction.

1.(c) The real estate examination procedures contained in the *Comptroller's Handbook for National Bank Examiners* are applicable to all national banks, including multinationals. As explained above, the OCC decides whether to conduct a real estate examination based on a number of factors including the type and degree of a bank's involvement in real estate activities and the risks these factors pose. The scope of the real estate examination depends on the examiner's assessment of the adequacy of a bank's internal controls and the work performed by internal and external auditors.

2.(a) During the examination, the examiner is not required to review a minimum number of loans or a minimum dollar amount of loans. The number of loans reviewed and the percentage of a bank's total loan portfolio this constitutes varies from bank to bank and depends on many factors including the size and condition of the bank under examination.

2.(b) When individual real estate loans are evaluated, the examiner reviews the contents of the loan file to determine whether credit information and collateral documentation, including appraisals, are sufficient. The examiner seeks to determine whether the bank's real estate policies and procedures regarding appraisals are sound and whether they have been adhered to in reference to the loan under review.

3.(a) There is no detailed delineation of what constitutes a deficiency. An examiner's judgment is relied upon to determine this. The OCC maintains the Internal Control Questionnaire only as a guide to evaluate the systems and controls that a bank employs to ensure the accuracy of records and the safeguarding of assets. The items contained therein relate to prudent controls on a bank's operations.

3.(b) The Internal Control Questionnaire section sets forth the principal aspects of effective internal controls. This medium provides guidance to examiners as well as bankers on controls that are considered appropriate.

D. OCC's examination and supervision of Continental Illinois' real estate lending practices:

1.(a)-(b) The OCC does not generally collect data on the number of loans or dollar value outstanding of loans as of the end of an examination. However, the dollar value of real estate and mortgage loans outstanding, and the amounts of nonperforming real estate and mortgage loans, for the Continental Illinois Corporation at year-end 1979 through year-end 1983 from the Corporation's Annual Reports are as follows:

<i>Real Estate and Mortgage Loans</i>		
(\$ millions)		
	<i>Total</i>	<i>Nonperforming</i>
12/31/79	3,123	221
12/31/80	3,530	188
12/31/81	3,957	293
12/31/82	4,011	385
12/31/83	3,592	210

2. Examiners assessed the adequacy of overall bank policies, practices, procedures, and internal controls and reviewed the Real Estate Internal Control Questionnaires as part of the examinations of Continental Illinois conducted during the period January 1, 1980 through July 1, 1984. As a result of this process, no special review of the bank's real estate and real estate construction policies, practices, procedures, or internal controls was deemed necessary.

3.(1)-(3) Information about the specific real estate loans taken by the FDIC from Continental Illinois is not readily available and would have to be reconstructed from the bank's and the FDIC's records. However, the OCC's examinations of Continental Illinois during the period January 1, 1980 through July 1, 1984 routinely included a review of the most severely classified credits, all credits over \$10 million, non-accrual loans, and selected past due loans. Any real estate loans within these categories would have been reviewed and appropriately classified. As far as corrective action is concerned, a March 14, 1983 Agreement between the bank and the OCC required the bank to strengthen its position with respect to each criticized asset.

The June 30, 1980 examination included statistical sampling techniques to review collateral documentation in the commercial lending area. While documentation deficiencies were found to exist in the real estate area, the review found no instance of credit weakness based exclusively on the absence of collateral documentation. Management in the real estate area had already taken the initial steps to reorganize the operations side of the department and had directed employees to monitor, control and report on the progress

made in reducing documentation deficiencies and in strengthening controls in this area.

E. OCC's supervisory and examination policies concerning real estate collateralizing mortgage-backed securities:

1.(a) Mortgage-backed securities activities are not uncommon among multinational banks and there is no statutory requirement that banks notify the OCC of their entry in that market. While we are aware of several multinational banks engaged in the mortgaged-backed securities business, we do not maintain aggregate statistics on this activity and cannot provide an exact number.

With the exception of the well-publicized problems of Bank of America, the OCC is unaware of any significant problems with respect to the properties collateralizing mortgage-backed securities handled by multinational banks.

1.(b) The OCC has established specific procedures to assist the examiner in determining bank policies, practices and controls with respect to the accuracy of appraisals on properties collateralizing mortgage-backed securities where the bank acts as trustee and/or escrow agent. These procedures are contained in the June 1985 supplement to the *Comptroller's Handbook for National Trust Examiners*, Section 604.4, Questions 9-13. OCC examiners determine the duties and responsibilities of the bank pursuant to the governing trust agreement and whether the bank as trustee and/or escrow agent has established policies and procedures to adequately verify appraisals of underlying property collateralizing such securities.

Sections 213 and 214 of the *Comptroller's Handbook for National Bank Examiners* apply to real estate loans made by any national banking association and would not be applicable in situations where the bank acts as trustee and/or escrow agent for mortgage-backed securities.

1.(c), (1)-(2) The OCC conducts an examination of a multinational bank's mortgage-backed securities activities when it is determined that this area poses a significant risk to the bank. The scope of a bank's mortgage-backed securities examination (including a review of property appraisal) depends on the examiner's assessment of the adequacy of the bank's internal controls in this area.

1.(d) Because a bank is not required to notify the OCC prior to engaging in the mortgage-backed securities business, the extent of a bank's involvement is typi-

cally determined by the examiner-in-charge when establishing the scope of the examination.

The OCC was not aware of activities of Bank of America and Wells Fargo involving National Mortgage Equity Corporation until November 1984 when a complaint was filed against Bank of America by an institutional investor.

1.(e) The OCC's procedures for reviewing the activities of a national bank acting as trustee and/or escrow agent for mortgage-backed securities are contained in the *Comptroller's Handbook for National Trust Examiners*, Section 604.4, Corporate Trusts and Agencies, P. 2, Questions 9-13. These procedures direct the examiner to consider the following:

- Whether the pools are privately insured, and if so, the strength and adequacy of the insurer;
- The terms and responsibilities of the trust agreement, and the level of the bank's compliance with it;
- Whether the bank reviews the loan documenta-

tion and verifies the appraisals of the underlying properties;

- Whether the bank investigates, prior to accepting the account, the loan packager, servicer and/or mortgage banker with whom it proposes to do business, to determine if the entity conforms to industry standards;
- The level of expertise the bank has to administer this business, and whether there are adequate internal controls over the activities to protect all parties-at-interest; and
- Whether the bank, if it is both trustee and/or escrow agent and the lender to the mortgage banker, has recognized the potential conflict of interest and instituted proper procedures to protect itself in the event of default of the debt.

Real estate loan procedures contained in Section 213.3 of the *Comptroller's Handbook for National Bank Examiners* are designed for real estate loans made by the commercial bank. Activities where the bank is designated trustee and/or escrow agent involve very different duties and responsibilities on the part of the bank and are more appropriately reviewed through the procedures outlined above.

Interpretive Letters—October 15 and November 15, 1985

<i>Topic</i>	<i>Letter No.</i>
Laws	
12 U.S.C. 29	.349
12 U.S.C. 84	.352
12 U.S.C. 92a	.353
15 U.S.C. 636	.350
Regulations	
12 C.F.R. 1.110	.350
12 C.F.R. 5.34	.353
12 C.F.R. 7.3025	.349
12 C.F.R. 9	.353
12 C.F.R. 32.5	.351, 352
Subject	
Brokerage services	.353

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This is in belated response to your request that we reconsider the position taken in the OCC's Interpretive Letter No. 278, Feb. 17, 1984, Fed. Banking L. Rep. (CCH) ¶ 85,442. Essentially, that letter concluded it is impermissible under 12 U.S.C. § 29 for a national bank to exchange OREO property for other real estate which it deems to be more marketable. Your request was prompted by two dispositions of OREO single-family residences by *** National Bank in exchange for large amounts of cash as well as other real estate. For the reasons given below, I agree with your conclusion that such exchanges were permissible. The key point is that, based on the information available to us, it appears the bank was substantially reducing its potential loss on OREO property and not engaging in real estate speculation.

The facts pertaining to the two exchange transactions of *** National Bank were summarized by bank counsel as follows:

The subject OREO properties were both single-family residences. One property (A) was taken into OREO in December, 1982. At the time, the loan amount, including foreclosure fees, etc., was, approximately, \$560,000. Therefore, the bank expended, approximately, \$300,000 in completing construction and preparing the property for sale. The property was marketed for sale at \$900,000 for over one and one-half years.

In early 1984, a cash offer of \$700,000 was received and rejected. Later, a second offer was made by the same person, at full price. This offer consisted of \$500,000 in cash and the balance in the equity of five improved properties to be traded. Those properties consisted of four condominium units and one single-family residence.

The second property (B) was taken into OREO in September, 1983. At that time, the amount of the loan exceeded \$445,000. The property was marketed for sale, with no success, over the next six months. In April, 1984, an offer was received, at full price, consisting of cash plus the equity of a single-family home to be exchanged.

The offers on both the A and B residences, consisting of both cash and exchange properties, were accepted because the bank found the OREO properties difficult to sell and uneconomical to maintain. The bank did not enter into either transaction with the intent of making a profit from a contemplated resale of the exchanged properties received in the sale.

Contrary to the position taken in Interpretive Letter No. 278, it is my opinion that a bank is not necessarily engaged in real estate speculation if it exchanges OREO property for other property. Given the facts presented, it appears that the bank was simply trying to dispose of its OREO property, without taking a loss, in the most feasible way under current market conditions. The *** National Bank disposition of OREO property in exchange for cash and other property would seem to be entirely consistent with the purposes of 12 U.S.C. § 29 as construed by the courts, particularly in view of its protracted unsuccessful efforts to dispose of both properties for full price.

It is important to note that 12 U.S.C. § 29 does not expressly prohibit real estate swaps (i.e., swapping OREO property for other real estate). Further, under the case law, banks have been given the maximum flexibility possible under the law to avoid or minimize loss in an OREO context. For example, national banks have been allowed to protect their position on OREO property or to render it more marketable by taking such actions as making repairs to the property, completing an unfinished property, assuming or paying encumbrances, purchasing an additional interest in the OREO property and purchasing adjoining real estate. These cases were recognized and discussed in Interpretive Letter No. 278. Congress amended 12 U.S.C. § 29 in 1980 to specifically authorize a national bank to expend such funds as are needed on OREO property to recover its total investment.

Finally, and perhaps most important to the present discussion, *** National Bank has reduced its exposure to loss on OREO property to the extent that it has received large amounts of cash in the two exchange transactions. This is not speculation; indeed, the bank has most likely improved its position from a safety and soundness perspective.

Interpretive Letter No. 278 relied primarily on two cases in reaching the conclusion that real estate swaps in an OREO context are impermissible. Although these two cases are old, they have never been overturned. See *Williams v. Merchants' Nat. Bank of St. Cloud*, 42 F.2d 243 (D. Minn. 1930); *Kosse Nat. Bank v. Derden*, 36 S.W.2d 295 (Ct. Civ. App. Tex. 1931).

In holding a real estate swap impermissible, the *Williams* court observed:

The right to take real estate in satisfaction of debts would naturally include the incidental right to purchase outstanding titles and interests in the land taken and to pay off encumbrances thereon; in other words, to do whatever was reasonably

necessary to make the land marketable. *Cockrill v. Abeles* (C.C.A.) 86 F. 505. Such incidental right, however, is very different from the right to trade land so taken for other land and assume encumbrances thereon. In my opinion, it is the duty of the officers and directors of a national bank which has been obliged to take real estate in satisfaction of a debt to dispose of it solely for cash or the equivalent of cash, and they have no right to use it as the consideration or excuse for dealing in other lands. (42 F.2d at 247)

Relying in part upon *Williams*, 36 S.W.2d at 298, the state court in *Derden* held that a national bank could not exchange its 600 acres of OREO property for 400 acres plus "a nominal sum in cash, a promissory note payable to the bank in the sum of \$1,200," and perhaps the bank's assumption of two liens on the 400 acres totaling about \$17,500. *Id.* Whether the bank agreed to the assumption was a matter of dispute between the parties not settled by the court in view of its holding that the real estate swap transaction was ultra vires and void in any event.

Since *Derden* involved a "nominal sum in cash" and *Williams* apparently involved a straight swap of real estate (and notes and encumbrances relating thereto) without any cash, these cases could be distinguished from a situation where a national bank exchanges its OREO property for other property plus significant cash. Of course, the *Williams* court did state in dictum that a bank should get cash or its equivalent for OREO property. This means that in the two jurisdictions covered by these courts it is possible to conclude that real estate swaps are ultra vires regardless of whether the bank is receiving significant cash as part of the deal. This can be left for local bank counsel to consider. (There may be other bases for distinguishing these cases as well.)

Outside of these two jurisdictions, on balance I believe that it is the better view to conclude that a national bank under 12 U.S.C. §§ 24 (Seventh) and 29 has implied authority to exchange OREO property for other real estate in appropriate circumstances, such as those described above. Such an exchange has both reduced the bank's holdings of OREO property by the amount of cash received and reduced the potential for loss. Accordingly, this would seem to reduce rather than increase the element of speculation. As mentioned, national banks can purchase additional interests in their OREO property and can purchase adjacent properties to improve the marketability of their OREO. See respectively *Cockrill v. Abeles*, 86 F. 505, 511 (8th Cir. 1898), *Baker v. Schofield*, 221 F. 322, 326 (9th Cir. 1915), *aff'd* 243 U.S. 114 (1917). Such purchases would seem to inevitably involve a more

substantial "investment" in real estate under 12 U.S.C. § 29 than does a real estate swap wherein the bank is reducing its potential losses by the amount of cash received.

Of course, the new property must be characterized as OREO property. Moreover, the bank will have to dispose of it within the 12 U.S.C. § 29 time allotment. In order to avoid bypassing the statutory time restrictions, I believe the holding period for the new property must be measured from the date when legal title to the original OREO property was acquired by the bank. See 12 C.F.R. § 7.3025(e). Finally, and most important, this entire discussion assumes good faith on the part of bank management in seeking to minimize or avoid loss on the defaulted, secured loan. Real estate swaps cannot be used as a vehicle for speculation. They must be justified solely as a means of improving marketability of OREO property and reducing potential losses thereon.

Thank you for your thoughtful request for reconsideration of our position in this matter. I trust my reply is responsive to your concerns and recommendations.

Roberta W. Boylan
Director
Legal Advisory Services Division

* * *

350—September 19, 1985

This responds to your letter of November 5, 1984, requesting clarification of OCC Banking Circular No. 181 (Rev.) (BC-181) as it relates to national bank purchases of Small Business Administration (SBA) guaranteed participations, i.e., the portions of loans made by private lenders to small businesses which are guaranteed by the SBA pursuant to 15 U.S.C. § 636. The circular, dated August 2, 1984, contains guidelines for prudent purchases of loans and loan participations, including the performance by banks of independent credit analyses based on certain financial information which the banks should obtain. Several of your prospective national bank clients have expressed concern about their ability to purchase SBA guaranteed participations because the financial documentation received by purchasers does not conform to that outlined in BC-181.

In conversation with Attorney Cheryl Bass of this division, you stated your belief that SBA guaranteed participations should not be subject to the same credit

analyses and documentation requirements as are other loans because the risk of loss normally incurred by loan purchasers is eliminated by the SBA guarantee. You also noted that the SBA, pursuant to statutory amendment to the Small Business Act, recently adopted procedures for pooling guaranteed participations and selling certificated undivided interests in those pools. See 50 Fed. Reg. 12229 (March 28, 1985). It is your opinion that the resulting pool certificates which carry a statutory full faith and credit guarantee, see 15 U.S.C. § 634, as amended, are investment securities outside the purview of BC-181 because they constitute obligations of the United States within the guidelines contained in 12 C.F.R. § 1.110.

Applicability of BC-181 to purchases of SBA guaranteed participations or to interests in SBA loan pools is not defeated by the characterization of those items as obligations of the United States. It was recognized even prior to the introduction of the SBA's new pooling program that the original whole SBA participations constitute U.S. obligations. The U.S. Attorney General has ruled that SBA guarantees issued pursuant to statutory authority are obligations of the United States backed by its full faith and credit. Letter from Attorney General Mitchell to SBA Administrator Kleppe, dated April 14, 1971, citing 41 Op. A.G. 403 and 42 Op. A.G. No. 1, reprinted in "Full Faith and Credit": *Secondary Participation in SBA Guaranteed Loans* at 9-15 (June 1977). The OCC has noted in subsequent advisory opinions the general obligation status of SBA guaranteed participations. See Letter from Comptroller of the Currency William Camp to SBA Administrator Eachon, dated August 12, 1972 (OCC Banking Circular 50 based on premise that guaranteed portions of SBA loans are general obligations of the U.S.); see also OCC Interpretive Letter No. 141 (May 19, 1980), reprinted in (1981-82 Transfer Binder) Fed. Banking L. Rep. (CCH) ¶85,222. Nevertheless, it has been the policy of this agency to treat national bank acquisition of these items as the purchase of loans and not as the purchase of investment securities.

In my opinion, this requirement attaches not only to whole SBA guaranteed participations, but also to purchases of interests in the newly authorized loan pools. While the guarantee supporting the loan pool certificates differs slightly from the one supporting the original whole participations,¹ it is uncertain whether that difference will assist in making those items mar-

ketable enough to be viewed as U.S. government securities. That determination is primarily a factual one which can be made only after a review of the performance of these certificates over time in the marketplace. Moreover, the guarantee supporting the loan pool certificates merely qualifies those items technically as U.S. obligations under 12 C.F.R. § 1.110, a position already held by whole guaranteed participations which are still viewed as loans. Consequently, there is to date, no persuasive reason for treating interests in pools of SBA guaranteed participations differently from their underlying assets.

As SBA guaranteed participations and interests in pools of guaranteed participations are considered loans, purchases of those assets are subject to BC-181. However, specific guidelines contained in that document regarding controls over risk and supporting documentation need not be strictly adhered to when national banks purchase SBA guaranteed loans. BC-181 is drafted to reflect flexibility in the application of its principles, especially with respect to transactions which may differ substantially in terms of risk or procedure from the standard purchase of loans and loan participations. The circular provides, therefore, that the nature and extent of the independent credit analysis which banks must perform is a function of the type of transaction at issue and the purchaser's lending policies and procedures. See BC-181 at 3.

Following this guideline, it would seem reasonable that since SBA guaranteed participations and interests in pools of those participations have the full faith and credit backing of the United States, see Attorney General Letter, *supra*, 15 U.S.C. § 634(g)(3), the performance of independent credit analyses of underlying borrowers is unnecessary. Rather, a national bank should require sufficient documentation to assure itself that the participations purchased or underlying the pool are not in default and were originated in accordance with proper procedures by the originating lenders, and that the seller and/or service of the items have complied with all the terms of the guarantee.

William B. Glidden
Assistant Director
Legal Advisory Services Division

* * *

¹The SBA guarantees timely payment of principal and interest on the loan pool certificates, whereas individual loan participation holders receive guarantees against a failure of the borrower to repay or a failure of either the lender or the SBA's Fiscal and Transfer Agent to forward to the holder the borrower's payment. See Fed. Reg. 12229, 12230.

351—September 23, 1985

This is in response to your letters of July 6, 1984, and November 7, 1984, concerning the applicability of the

lending limit combination rules in 12 C.F.R. § 32.5. The response to your request was delayed while the Office considered issuing the attached opinion letter dated this same date and addressed to another party who was also requesting an interpretation of the same rule.

Your client (Bank) proposes to make a loan to a real estate partnership (Partnership). An individual (A) is a partner whose interest in the Partnership is below 25 percent. In turn, A owns 38 percent of a one-bank holding company (Parent), which you state has absolutely no relationship to your client Bank, and the Parent owns 100 percent of its subsidiary, the single bank (Subsidiary). The Parent receives virtually all of its income from the Subsidiary, and none from A. A receives less than 50 percent of his income from the Parent and Subsidiary combined. Moreover, he receives less than 50 percent of his income from the Parent, Subsidiary, and Partnership combined. A's investments in the Parent and Partnership are essentially passive, and the majority of his income flows from other activities. The Bank has already made a loan to the Parent equal to the Bank's lending limit. No loan has been made to any of the other named entities. The Bank proposes to make a loan to the Partnership.

At issue is whether automatic combination of the loans to the Parent and the Partnership is warranted under 12 C.F.R. § 32.5(a)(2)(iii). For purposes of clarity, I will refer to the Parent and Subsidiary as if the Subsidiary were an ordinary corporation and the Parent an ordinary holding company. For the reasons set forth below, I believe that your fact situation does not trigger automatic combination under § 32.5(a)(2)(iii).

A common enterprise may be found where loans are made to persons who are related through common control, including where one person is controlled by another, and the persons are engaged in interdependent businesses or there is substantial financial interdependence between them.

A common enterprise will be deemed to exist when 50 percent or more of one person's gross receipts or expenditures... is derived from transactions with one or more persons related through common control... 12 C.F.R. § 32.5(a)(2)(iii). (Emphasis added).

Common control is deemed to exist if any of the conditions specified in 12 C.F.R. § 32.5(a)(2)(v) are satisfied.

A, who owns less than 25 percent of the Partnership, does not "control" it for purposes of § 32.5(a)(2)(v). Therefore, it cannot be said that the Partnership and the Parent are under the "common control" of A. Assuming that A controls the Partnership because he

exercises a controlling influence over its management or policies under § 32.5(a)(2)(v)(C), the remaining question is whether the fact that the Parent receives all of its income from its Subsidiary invokes § 32.5(a)(2)(iii), thereby requiring combination with the loan to the Partnership.

Previously, the Office has interpreted § 32.5(a)(2)(iii), commonly referred to as the 50 percent dependency test, as requiring aggregation to determine whether the total of one person's gross receipts from or the total of his gross expenditures on related entities amounted to 50 percent or more. The Office has reversed this position in the attached letter and now requires combination only when at least 50 percent comes from transactions with another entity under common control. The Office's present position is based on an assumption that loans to two or more related entities, whose transactions with each other do not reach the 50 percent figure, could be combined on a factual basis under 12 C.F.R. § 32.5(a)(2)(i) if the circumstances warranted.

The Office has, until now, never specifically decided whether the phrase "transactions with" referred only to other borrowers or included transactions with nonborrowing related entities. Under the previous interpretation, the conceptual framework encompassed relationships of financial interdependence among related entities in their entirety. Seen in that larger context, it did not matter which entities were borrowing. Under the new reading, on the other hand, the existence of financial interdependence usually depends on the relationship between two related entities. Under the narrower scope of the new interpretation, it would not make sense to read "transactions with" as including evaluation of dependence upon a nonborrowing related entity. It would seem contradictory to apply the new reading to nonborrowers contributing or receiving 50 percent of another entity's gross receipts or expenditures. In other words, the automatic test should not result in combination of loans to related borrowers where 50 percent of one borrower's, or both borrowers', gross receipts are derived from transactions with a third, nonborrowing but related entity. For example, two large, totally independent subsidiary borrowers could contribute more than 50 percent of a third nonborrowing subsidiary's gross receipts. While the nonborrowing subsidiary may be dependent on the borrowing subsidiaries, that fact may not affect the financial interdependence of the two borrowers. As with related entities that have some transactions with each other not amounting to 50 percent of another's gross receipts or expenditures, the relationships of borrowing to nonborrowing related entities is more properly examined under the common enterprise analysis requiring

"a realistic evaluation of the facts and circumstances" instead of on an automatic basis.

Accordingly, under the facts as you describe them, the loans to the Parent will not be combined with the proposed loan to the Partnership under 12 C.F.R. § 32.5(a)(2)(iii).

Richard V. Fitzgerald
Chief Counsel

* * *

352—September 23, 1985

This is in response to your letter dated October 25, 1984, in which you request a reconsideration of a letter dated July 31, 1984, signed by Rosemarie Oda, Senior Attorney, Legal Advisory Services Division. Ms. Oda was responding to your request dated May 14, 1984, for a ruling on the interpretation of the 50 percent dependency test of a common enterprise used in determining combination of loans subject to national bank lending limits under 12 U.S.C. § 84. I have decided that a reinterpretation is desirable and appropriate and will not result in possible abuse.

In your fact situation, the bank advanced funds up to its full lending limit to Corporation X and its wholly owned subsidiary, Corporation A. Corporation B, another wholly owned subsidiary of X, has requested additional credit be extended up to the bank's lending limit. Corporation B is engaged in a separate and distinct line of business from that of Corporations X and A, and the expected source of repayment of the proposed loan is different from the sources of repayment of the existing loans to X and A. Corporation A expends 50 percent or more of its gross expenditures in transactions with its parent Corporation X.

The 50 percent dependency test of financial interdependence found at 12 C.F.R. § 32.5(a)(2)(iii) states:

A "common enterprise" will be deemed to exist when 50% or more of one person's gross receipts or gross expenditures (on an annual basis) are derived from transactions with one or more persons related through common control (as defined in paragraph (a)(2)(v) of this section). (Emphasis added).

The preamble to the regulation, 48 *Fed. Reg.* 15844 (April 12, 1983), describes this test as a numerical "rule of thumb" which would result in automatic combination.

Under the regulation, loans to two or more entities related through common control will be combined when an entity derives more than half of its gross receipts or expenditures from transactions with the other, related, entities. (48 *Fed. Reg.* 15847.)

Under your hypothetical, since Corporation A expends 50 percent of its gross expenditures in transactions with Corporation X, loans to A and X would be automatically combined under any interpretation of 12 C.F.R. § 32.5(a)(2)(iii). The question is whether Corporation B's loans must also be combined with A's and X's loans. Combination of all of these loans would have been required under the Office's previous interpretation of the 50 percent dependency test if B had any transactions with either A or X. It is not required under the new interpretation.

The Office previously interpreted the 50 percent dependency test as requiring that where several entities are under common control and one of those entities derives its gross receipts or expenditures from transactions with the others, the gross receipts or expenditures would be added together to determine whether they amounted to 50 percent or more. If so, loans to all of those commonly controlled entities which had transactions with one another would be combined. This was the case even if no one set of transactions between any two of the related entities resulted in one entity deriving 50 percent of its gross receipts or expenditures from the other related entity. To further illustrate the application of the prior interpretation, if Corporation X wholly owned five entities and each contributed 10 percent to X's gross receipts, all of X's subsidiaries' borrowings would have been combined with X's borrowings.

The phrase "one or more" was interpreted as requiring a consideration of the relationships among all controlling or controlled entities in their entirety, rather than determining whether interdependence existed between any two at a time. While this literal construction of the rule was expedient because it substituted a numerical test for a factual analysis in many situations, it was overly broad, and the results were sometimes unnecessarily harsh.

One example of a "worst case scenario" resulting in combination involves a person with a controlling interest in 50 corporations engaged in independent businesses which contribute 1 percent each to the controlling person's gross receipts. Focusing on the aggregate amount of gross receipts transferred by all related entities would result in automatic combination of loans to all 50 corporations with the person's own borrowings.

An alternate reading of the 50 percent dependency test is possible which will not be subject to abuse but which will eliminate the overly broad reach of the Office's previous interpretation. The new interpretation regards the automatic rule as triggered only when one entity derives the full 50 percent of its gross receipts or expenditures from transactions with another entity under common control.

The new interpretation assumes that if aggregation of receipts and expenditures had been intended, the phrase "one or more" would be surplusage. To give effect to that phrase, this interpretation, like the previous interpretation, views relationships between related entities at once. The difference is that this perspective is only necessary to determine how many of the controlling or controlled entities are contributing 50 percent each to another entity's gross receipts or expenditures. The phrase "one or more" is given effect because it can refer to more than two entities. For example, where several entities are under common control, one entity, which generates no gross receipts of its own, receives 50 percent each from two of the other entities. Loans to all three would be combined. The maximum possible number of entities that would be combined under this reading would be five: the entity that is engaged in transactions with the others, two contributing 50 percent each to its gross receipts, plus two receiving 50 percent each of its gross expenditures. Obviously, in most cases the gross receipts or gross expenditures will not be divided equally, *i.e.*, on a 50 percent basis, with two related entities.

Applying this analysis to the instant case, Corporation A is expending 50 percent of its gross expenditures in transactions with Corporation X. Since Corporation B does not derive 50 percent or more of its gross receipts or gross expenditures from transactions with Corporation A, or Corporation X, only loans to Corporations X and A will be combined under the numerical test of financial interdependence found at 12 C.F.R. § 32.5(a)(2)(iii). Whether the loan to Corporation B will be combined because a common enterprise exists on a factual basis, *i.e.* upon a "realistic evaluation of the facts and circumstances" under 12 C.F.R. § 32.5(a)(2)(i), may depend on the existence of other facts not recited in your hypothetical.

This new interpretation will limit the potential application of this rule, but I believe that it is more in accord with the Office's stated intent. This 50 percent dependency test should not set the standard for determining when loans should be combined but merely eliminate the need for extensive analysis or fact finding in the most obvious cases of financial interdependence between controlling and controlled entities. As stated in the preamble, the Office did not intend that the pro-

posed tests would be applied rigidly or create an administrative burden on banks desiring to operate cautiously. This new interpretation should prove easier to apply and should assure that the rule "will not be applied to situations where common sense dictates that loans to separate borrowers need not be combined." 48 *Fed. Reg.* 15847. This new interpretation is intended to restore the status of the numerical test of financial interdependence as a "rule of thumb." At the same time, those situations where combination of loans is warranted should continue to meet the factual test of common enterprise based on other, additional evidence of interdependence.

In closing, you should note that Corporations A and B, as wholly owned subsidiaries of Corporation X, meet the definition of "subsidiary" found at 12 C.F.R. § 32.5(b)(1). Accordingly, loans to all three will be aggregated for purposes of determining whether the bank has exceeded its limit on loans to a "corporate group": 50 percent of the bank's unimpaired capital and unimpaired surplus, at § 32.5(b)(3).

Richard V. Fitzgerald
Chief Counsel

* * *

353—July 30, 1985

This responds to your request on behalf of the *** (Bank), for the views of this Office on a proposal for the Bank to make certain investment advisory and discount brokerage services available to Bank customers. The summary set forth below is based upon your letters of March 14, April 19, April 22, and July 10, 1985 and your June 12, 1985 telephone conversation with Judith Cohn of this Office.

The Bank has made application to this Office for approval to exercise fiduciary powers pursuant to 12 U.S.C. § 92a. Assuming that such trust powers are granted, the Bank then will offer financial planning advice (Financial Planning Service) to Bank customers through its trust department. The customer may purchase an individual written analysis based upon completion of a client questionnaire, or may obtain a more complete financial plan. The financial plans will contain generic advice concerning possible investments, but will not target specific stocks or securities for customer investment. The trust department will assess a flat fee based on the advisory services performed.

The Bank already has a discount brokerage service

(Brokerage) available to its customers. The Brokerage is maintained on the retail side of the Bank and performs only as a limited purpose, introducing broker. The Bank has contracted with *** for execution of the orders placed by Bank customers. The Brokerage receives a percentage of the net commissions earned by ***.

Pursuant to the January 27, 1983 opinion of the Texas Securities Board (appended to your April 19 letter), certain Brokerage personnel are licensed as salesmen and the Bank itself is registered as a corporate dealer under the Texas Securities Act. The Bank and its Brokerage will not be making margin loans to customers.

The Financial Planning Service will be a stand-alone, fee-only service and the Brokerage will simply receive its percentage of net commissions under the scheme previously described. There will be no referral fees. The Financial Planning Service will not receive commissions for insurance or securities or any other investments made by a client implementing the financial plan produced by the Service. There will be no sharing or splitting of fees between the Brokerage and the Financial Planning Service. Financial planning customers will have complete discretion concerning the discount or full-service brokerage they will use to implement various aspects of their financial plan. The Bank will provide oral and written disclosure to its financial planning customers stating that the customer may choose any brokerage service for placement of orders. There will be no overlap of Bank personnel between the two different services.

When a financial planning customer chooses to utilize the Brokerage, he or she will be asked to sign an explicit consent for the Brokerage's receipt of its commission. This is an extra safeguard intended to avoid even the appearance of any conflict of interest in the Bank and is in accordance with Texas law. In your March 14 letter, you indicated that Texas law provides for compensation in this fiduciary context so long as provision has been made for full disclosure and written consent.¹ In addition, the Bank will meet its fiduciary recordkeeping burdens pursuant to 12 U.S.C. § 92a(c) and its duty to demonstrate best execution in compliance with fiduciary standards and in view of any potential conflict of interest.

There will be more extensive procedural requirements to be met before the Brokerage may be utilized for discretionary trust accounts. The Bank's trust department generally will not utilize the Brokerage for its discretionary accounts. Instead, it will utilize Feder-

ated Securities, a brokerage specializing in services to trust departments. However, when savings would result, the trust department may use the Brokerage for its discretionary account customers pursuant to the subsequently described procedures. Before utilizing the Brokerage for those discretionary account customers who will benefit by savings as a result, the trust officer in charge of the account will first disclose that the Bank will utilize its own service in placing the customer's order. Then the trust officer will obtain the customer's written consent to use the Brokerage. If the customer does not consent to the Bank's receipt of a commission, such commission will be waived. Pursuant to Trust Banking Circular No. 23 (October 4, 1983), the trust officer will ensure that the beneficiaries of each fiduciary account are properly identified and competent, before the transaction is authorized by the customer pursuant to this disclosure and consent procedure.

Pursuant to this Office's decision in *American National Bank of Austin*, Austin, Texas (issued September 2, 1983), it is your legal opinion that the Bank's proposed activities will not violate the Glass-Steagall Act even though both the Brokerage and investment advisory activities will take place in the Bank rather than through operating subsidiaries, as they did in *American National Bank of Austin*. You have opined that "the statutory test of Glass-Steagall is met if 'no sales or purchases are executed unless directed by the customer and...the customer has full beneficial ownership of the securities.'" See *New York Stock Exchange v. Smith*, 404 F. Supp. 1091 (D.D.C. 1975). See also 12 C.F.R. § 5.34. However, it should be noted that the *American National Bank* decision is currently the subject of litigation and the resolution of the case could affect the future operation of the Bank's Financial Planning Service. See *Securities Industry Association v. Comptroller of the Currency*, No. 83-3581 (D.D.C. filed November 30, 1983).

On the basis of the facts and representations set forth in your opinions of March 14, April 19, April 22 and July 10, 1985, along with the supporting submission (which is incorporated herein by reference), and in reliance on your legal opinion that pursuant to this Office's decision in *American National Bank of Austin*, the Bank's proposed activities will not violate Sections 16, 20, 21 or 32 of the Glass-Steagall Act, and will be consistent with the requirements of 12 U.S.C. § 92a and 12 C.F.R. Part 9, we will raise no objection to the Bank's provision of the Brokerage and Financial Planning Services to its customers.² Because this position

¹The governing standard concerning retention of commissions is found in the applicable local law. See, e.g., *Slay v. Burnett Trust*, 143 Tex. 621, 187 S.W.2d 377 (Tex. Sup. Ct. 1945).

²You have discussed the Bank's compliance with proposed rule 12 C.F.R. § 5.52, 49 Fed. Reg. 15089, April 17, 1984. As you know, the rule has not been adopted at this time. However, please be aware

is based on your letter of April 14, 1985, and subsequent correspondence and documents, it should be noted that any different facts or conditions might require a different conclusion. In addition, please note that our view is based on current law and regulation

that the Securities and Exchange Commission has adopted Rule 3b-9, 48 *Fed. Reg.* 51930 (proposed November 15, 1983), which generally applies to these types of transactions. Please review Rule 3b-9 and ensure that the Bank's practices conform to its requirements

and may be subject to revision as future litigation or legislative developments warrant. We will, of course, continue to monitor the Bank's provision of the Brokerage and financial advisory services and we reserve the right to modify the views expressed herein or provide additional comments in the future.

Deborah S. Hechinger
Director
Securities & Corporate Practices Division

* * *

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Violations of law, consumer	AA151, 154, 155, 156, 157, 158, 159, 160, 161, 163, 165, 166, 168, 169, 170, 172, 173, 174, 178, 183, 184, 185, 187, 189, 191, 192, 193, 194, 195, 196, 197, 199, 201, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 216, 219, 220, 221, 222, 224, 225, 226, 227, 228, 229, 230, 231, 232, 235, 236, 237, 238, 239, 240, 241, 242, 243, 245, 246, 247, 248, 249, 250, 251, 253, 254, 255, 256, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 269, 274, 275, 276, 277, 278, 279, 280, 281, 282, 286, 287, 288, 289, 290, 291, 292, 294, 295, 296, 297, 298, 299, 300, 302, 303, 304, 305, 306, 308, 309, 310, 311, 312, 315, 318, 319, 320, 322, 323, 324, 325, 327, 328, 329, 330, 331, 334, 335, 337, 339, 340, 341, 343, 344, 345, 346, 347, 350, 351, 352, 355, 357, 358, 361, 363, 364, 365, 366, 367, 368, 371, 372, 373, 374, 375, 376, 378, 380, 381, 382, 383, 384, 386, 387, 388, 389, 390, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 403, 405, 408, 409, 410, 411, 412, 413, 414, 415, 416, 418, 419
Violations of law, general	AA223 CMP14 AA158, 173, 182, 187, 191, 204, 212, 222, 232, 238, 249, 250, 251, 252, 260, 265, 280, 281, 288, 297, 299, 305, 310, 316,
Wire transfers	
12 USC 24(7)	
12 USC 84	

Topic	Actions
	328, 329, 331, 338, 339, 340, 347, 350, 373, 376, 399, 401, 413, 417, CMP3, 4, 8, 10, 11, 12, 13, 16, 17, 19, 20, 22, S1, 2, 3, ARI2, 3, 4, 5, 6, OR1, 2
12 U.S.C. 371c	AA292, 300, 310, 369, 408, CMP7, 16, S1, ARI2, OR2
12 U.S.C. 375a	AA288, 292, 310, 338, CMP2, 5, 6, 9, 13, 15, OR2
12 U.S.C. 375b	AA229, 279, 292, 297, 300, 305, 310, 338, 400, 419, CMP 9, 11, 13, 15, 21
12 U.S.C. 1828	AA289
12 U.S.C. 1972	AA292
15 U.S.C. 1601	AA335

Topic	Actions
15 U.S.C. 1681	AA193, 335
18 U.S.C. 656	AA177, CMP1, ARI1
12 C.F.R. 9	AA382
12 C.F.R. 28.3(a)	AA164
12 C.F.R. 2.15	AA400, CMP 2, 5, 6, 9, 13, 15, 21, ARI2, OR2
31 C.F.R. 103	AA204, 221, 224, 231, 288, 291, 308, 314, 316, 338, 340, 352, 356, 368, 371, 375, 380, 382, 396, 401

NOTE These are summaries of cases settled. Therefore, the numbers will be different from cases initiated or issued.

Administrative Actions

151. Bank with assets of \$100 to \$500 million

An examination revealed marked deterioration in the quality of the bank's loan portfolio. This deterioration affected the bank's earnings performance and capital structure. Credit and collateral documentation exceptions were inordinately high. Violations of law were cited; collection efforts were weak; excessive credit and collateral exceptions were found. The allowance for loan and lease losses was not adequate and capital was strained. No internal audit program was found. Funds management policy was inadequate.

An Agreement required the bank to: correct all violations of law; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit it criticized; implement a program to improve collection efforts; correct all credit and collateral documentation exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy; review and maintain an adequate allowance for loan and lease losses including the accurate and timely recognition of loss; maintain a primary capital to total asset ratio at a predetermined level; develop a 3-year capital program; restrict payment of dividends; prepare a profit plan; file amended Reports of Condition and Income; develop a funds management policy and strategic plan; and adopt an internal audit program.

152. Bank with assets of more than \$1 billion

An examination revealed marked deterioration in the quality of the bank's loan portfolio, primarily involving participations attributable to lending deficiencies. These problems raised some concern about the stability of the bank's funding base.

An Agreement required the bank to: maintain an adequate allowance for loan and lease losses; implement a program to reduce its level of criticized assets; strengthen loan administration and review, particularly regarding participations; revise non-accrual and charge-off policies; develop contingency funding plans and profit plans; restrict and monitor brokered deposits; and achieve and maintain primary capital at a predetermined level.

153. Bank with assets of \$100 to \$500 million

An examination revealed continued deterioration in the quality of the bank's loan portfolio. The bank's problems were caused by improper supervision and relaxed credit standards. Collection efforts were weak.

Credit information and collateral documentation exceptions were excessive. The lending policy was outdated and capital was marginal. Management was weak.

An Order to Cease and Desist required the bank to: implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; implement a program to improve collection efforts; correct all credit and collateral documentation exceptions and to refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy; maintain a primary capital to total asset ratio at a predetermined level; develop a 3-year capital program; prepare a profit plan; perform a management study and implement a management plan; monitor liquidity and develop liquidity and funds management policies; and restrict loan participations.

154. Bank with assets of \$25 to \$50 million

An examination revealed that the overall condition of the bank was poor. There was a significant decline in asset quality. Non-accrual loans were high. Weak collection efforts and weak loan administration had contributed to the bank's deteriorated condition. Management had been complacent in their efforts to address the weaknesses. They had no loan review system, policies were outdated and too general and the allowance for loan and lease losses was inadequate. Violations of law in the commercial and consumer areas revealed weak compliance management. Earnings had been adversely affected by the poor asset quality and increased loan loss provisions.

An Agreement required a study of current management's effectiveness and capabilities. The board agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to refrain from extending additional credit to borrowers whose loans had been criticized unless failure to extend such credit was shown to be substantially detrimental to the bank. All steps necessary to obtain current and satisfactory credit information would be taken and each collateral exception corrected. A loan review system was to be established. The adequacy of the bank's allowance for loan and lease losses would be assessed periodically. The bank's written lending policy would be revised. A written program designed to improve and strengthen collection efforts would be implemented and law and regulation corrected. The bank agreed to develop and implement an internal audit program.

155. Bank with assets of \$50 to \$100 million

An examination revealed continued deterioration in the quality of the bank's loan portfolio which affected the bank's earning performance and capital structure. As a result of severe loan losses, a significant provision had to be made to the allowance for loan and lease losses. Loan administration was considered poor. The volume of assets subject to criticism remaining on the bank's books made capital a supervisory concern.

An Order to Cease and Desist required the bank to: correct all violations of law; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; correct all credit information exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy; implement an internal loan review system; review and maintain an adequate allowance for loan and lease losses; develop a 3-year capital program; study and implement a management plan; adopt controls on issuance of letters of credit; ensure compliance with loan policies; adopt restrictions on concentrations of credit and brokered deposits; and implement a profit plan.

156. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Credit and collateral documentation exceptions were excessive, collection efforts were weak and an adequate internal loan review system had not been established. Earnings have been poor due to heavy loan loss provisions and overhead expenses. Capital has declined to an inadequate level. A funds management policy was needed. Violations of law were cited including consumer violations. The allowance for loan and lease losses was inadequate.

An Agreement required a program to address the criticized assets. The bank also agreed to maintain an adequate allowance for loan and lease losses, devise and implement a capital plan, establish a funds management policy, profit and business plan and revise the lending policy. A loan review system was called for, violations of law were to be corrected and a consumer compliance program devised and adhered to. Current and satisfactory credit information was to be obtained for all loans and collateral perfected.

157. Bank with assets of more than \$1 billion

An examination revealed continued deterioration in the quality of the bank's loan portfolio stemming primarily from lax management. The deterioration in

the loan portfolio resulted in an adequate allowance for loan and lease losses. The bank's internal loan review system was inadequate, and the bank was dependent on volatile liquidity sources for funding. Violations of law were noted.

An Agreement required the bank to: correct all violations of law; implement a program to reduce its level of criticized assets; review and revise its lending policy; implement an independent internal loan review system; review and maintain an adequate allowance for loan and lease losses; develop liquidity and contingency funding plans; restrict and monitor brokered deposits; and restrict and monitor concentrations of credit.

158. Bank with assets of \$100 to \$500 million

An examination revealed marked deterioration in the quality of the bank's loan portfolio, particularly in doubtful and loss classifications. The bank was operating without a chief executive officer and there was significant noncompliance with a previously executed Agreement. Past due and nonaccrual loans were high. The volume of assets subject to criticism remaining on the bank's books rendered capital a supervisory concern. Violations of law were cited and current and satisfactory credit information was missing for many loans. The internal loan review system was inadequate as were the bank's nonaccrual and collection policies. Capital was strained in light of the bank's other problems. The allowance for loan and lease losses was inadequate. Losses stemming from a violation of 12 U.S.C. §84 appeared attributable to the directorate.

An Order to Cease and Desist required the bank to: conduct an independent study of management and board supervision, including a review of compensation, appoint a new chief executive officer; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit was criticized; implement an internal loan review system; correct all credit and collateral documentation exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; implement a program to improve collection efforts; adopt a nonaccrual policy; implement procedures for accurate recognition of loss and maintenance of an adequate allowance; appoint a special counsel to determine director liability for losses sustained from violations of 12 U.S.C. §84; correct violations of law; maintain primary capital at a predetermined ratio to total assets; and develop a plan to improve earnings.

159. Bank with assets of \$25 to \$50 million

A recent examination revealed that management had not addressed deficiencies cited at prior examina-

tions. The bank's management and organizational structure were weak and the loan portfolio was inadequately supervised. Problem loans had increased in relation to gross capital funds and the bank's system of internal loan review was inadequate. Violations of law were cited, current credit information was lacking, collateral exceptions were excessive, the allowance for loan and lease losses was inadequate and the collections policy needed strengthening. Capital was marginal.

An Agreement required the Bank to: conduct an internal study of management's structure and effectiveness; implement written policies to improve the bank's loan administration; implement a program to eliminate criticized assets; obtain current credit information and correct collateral exceptions; perfecting collateral where necessary; establish a loan review system; maintain an adequate level of allowance for loan and lease losses; develop and implement a written collection policy; correct violations of law; and maintain capital at a predetermined level in relation to assets.

160. Bank with assets of less than \$25 million

A current examination reflected the need for a new senior lending officer. Deterioration continued in the loan portfolio. The volume of classified assets was increasing, credit and collateral documentation exceptions were high, and past due loans and nonaccruals were increasing. The examination required taking additional losses which in turn necessitated a large provision to the allowance for loan and lease losses, significantly reduced earnings. Capital was inadequate because of the volume of criticized assets. Further, the allowance for loan and lease losses had not been evaluated properly and was not maintained at an adequate level. A written funds management policy was needed. Violations of law were cited. Internal controls were inadequate.

An Agreement required the bank to: employ a capable senior lending officer; develop a comprehensive loan policy; prepare a program to eliminate the basis of criticism of weak assets; improve loan documentation and collection efforts; implement written policies to control nonaccrual loans; review and maintain an adequate allowance for loan and lease losses; develop a written funds management policy; prepare a business plan; and correct violations of law. A loan review system was required as were a financial plan and budget.

161. Bank with assets of \$50 to \$100 million

A current examination revealed a significant volume of problem assets. Nonaccruals had increased to an

inordinate level. Loans lacking current financial and credit information were also excessive. Earnings were depressed due to the large provision to the allowance for loan and lease losses required during the examination. Loans were often granted without adequate financial information, violating board-approved policy. Other violations of policy and control deficiencies were noted. Audit coverage was inadequate. Management was weak. Violations of law were cited.

A Memorandum of Understanding required the bank to obtain a management study. The bank agreed to review and revise its loan policy; obtain current and satisfactory credit information; establish a loan review system; review the adequacy of the allowance for loan and lease losses; develop written funds management policies; prepare a 3-year business plan; have an independent CPA conduct an audit and correct violations of law.

162. Bank with assets of less than \$25 million

An examination disclosed that the bank failed to comply with a previous administrative action. In addition, asset quality deterioration occurred due to inadequate management, poor credit administration including documentation deficiencies, poor problem loan identification and inadequate loan loss reserves.

An Order to Cease and Desist required an analysis and review of management; a program addressing the excessive criticized assets; current and satisfactory credit information for all loans; a revised loan review system; improved trust administration; a comprehensive funds management policy; and a revised lending policy.

163. Bank with assets of less than \$25 million

An examination of the bank reflected deteriorating asset quality due in part to loan portfolio management deficiencies. The allowance for loan and lease losses and its review process were inadequate. Financial statement and collateral documentation exceptions was high, the allowance for loan and lease losses was inadequate, several violations of law were cited, and losses were not recognized in a timely fashion. Revisions to the loan, investment and funds management policies were needed.

A Memorandum of Understanding required the bank to correct violations of law and regulation and to review and revise the bank's written lending policy. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to restrict extending additional credit to borrowers whose loans had been

criticized and to take immediate steps to obtain financial information as well as collateral documentation. It further agreed not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. A loan review system was to be established and the adequacy of the bank's allowance for loan and lease losses assessed periodically. An internal audit program was to be developed as was a budget program. The bank's investment and funds management activities were to be governed by written policies.

164. Bank with assets of less than \$25 million

An examination revealed that the subject federal branch was acquired by another foreign bank without prior application to the Comptroller pursuant to 12 C.F.R. §28.3(a).

An Order to Cease and Desist required the bank to cease all operations and freeze its assets pending the filing of an application pursuant to 12 C.F.R. §28.3(a) and receipt of a license from the Comptroller.

165. Bank with assets of \$50 to \$100 million

An examination disclosed that significant asset deterioration and poor earnings were the major problems confronting the institution. Classified assets had increased primarily because of poor lending supervision. Many credits were granted with either unrealistic or liberal repayment programs. In addition, the bank's problem loan identification system needed improvement. Loans were poorly documented and numerous financial statement and collateral documentation exceptions were reflected. Earnings were adversely affected by loan losses and additional provisions to the allowance for loan and lease losses were required as a result of the examination. Excessive management fees were noted. Capital was inadequate. The funds management policy was inadequate. The trust policies were out of date. Board supervision was not acceptable as it was not receiving sufficient information on which to base decisions. Violations of law were listed. The audit program was not acceptable. The allowance for loan and lease losses was not reviewed appropriately.

An Agreement required the bank to: develop a program to eliminate criticized assets; review and modify the bank's loan review procedures; review and maintain an adequate allowance for loan and lease losses; review and revise its lending policies; establish a written program to provide for improved collection efforts and to effect a reduction in the level of delinquent loans; require adequate financial information and collateral documentation; develop a funds management policy; maintain a specified level of capital;

develop a capital program; notify the regulator if dividends were to be paid; provide for review of management fees by an outside consultant; review and revise trust policies; correct violations of law; improve board supervision; and improve its audit procedure.

166. Bank with assets of less than \$25 million

A recent examination revealed deterioration in asset quality which in turn affected the bank's earnings performance. Numerous financial statement exceptions and instances of nonadherence to the established lending policy were noted. As a result of the deterioration in the loan portfolio, the allowance for loan and lease losses was deemed inadequate and a substantial provision to the account was requested during the examination. This provision combined with low net interest margins and heavy fixed expenses contributed to the bank's poor earnings performance. Also cited were several violations of banking law. The bank's audit program was insufficient. Capital was marginal.

An Agreement required the bank to: correct numerous policy and procedural deficiencies in the lending function; remedy the violations of law and establish procedures to prevent recurrence; develop a budgeting process and capital/dividend plans; improve adequate audit coverage and internal controls; strengthen its agricultural lending program and general loan policy; revise its funds management policy; improve its policies governing loan participations and nonaccrual loans; and maintain the allowance for loan and lease losses at an adequate level and review it periodically.

167. Bank with assets of \$25 to \$50 million

The bank had significant asset problems but had improved after an Order to Cease and Desist. The bank's chief executive officer resigned, leaving it without competent management.

An Amended Order to Cease and Desist required a new chief executive officer subject to OCC approval.

168. Bank with assets of \$50 to \$100 million

A recent examination revealed inadequate supervision by the board of directors and an understaffed management had contributed to an excessive amount of criticized assets. Violations of law were cited, collection efforts were weak, the funds management policy needed revision, current credit information was missing in many credit files, and the bank's loan review system had not been operating. Capital was

marginal. Consumer compliance program needed to be revised and adhered to.

An Agreement required: correction of all violations of law; programs to eliminate the basis of criticism for each criticized asset in excess of \$100,000; a program to improve collection efforts; adoption of a renewal policy; elimination of credit file exceptions; hiring an additional lending officer; a program to improve loan administration; establishment of a loan review system; revision and implementation of a revised consumer compliance program; maintenance of capital at or above a predetermined ratio to total assets; and amendment of the written funds management policy.

169. Bank with assets of \$25 to \$50 million

A recent examination revealed a serious decline in asset quality and earnings. Formal policies did not exist or were deficient in most operating areas of the bank. Additionally, numerous exceptions in loan documentation, internal controls and compliance with laws and regulations disclosed the need for an internal audit function which was virtually nonexistent.

An Agreement required: correction of violations of law; implementation of a written consumer compliance program; programs to eliminate the basis of criticism for each criticized asset in excess of \$100,000; elimination of credit file exceptions; a revised written program to strengthen collection efforts; quarterly reviews of the allowance for loan and lease losses; amendment of the loan policy to address deficiencies cited in the report of examination; adoption of a policy to properly account for other real estate owned; development of a written funds management policy; a revised profit plan; a study of management and staffing requirements; correction of all internal control deficiencies; and revision of the audit program to provide for an internal auditor. Capital was to be maintained at a fixed ratio to total assets.

170. Bank with assets of \$50 to \$100 million

An examination disclosed that significant asset quality problems and a lack of effective policies had resulted in a deteriorated condition of the bank. A large volume of losses and accrued interest reversals required a substantial allowance for loan and lease losses; provision, and severely impacted earnings. The bank suffered from liberal credit extensions, inadequate credit supervision and analysis, the lack of timely collection action, failure to adhere to written guidelines and an inadequate system of internal loan review. Capital was marginal. Several violations of law were cited.

An Agreement required: a program to eliminate the

basis of criticism for each criticized asset in excess of \$75,000; correction of each violation of law; written programs to strengthen collection efforts; elimination of credit exceptions; charge off or reversal of all interest accrued contrary to regulatory requirements; establishment of a loan review system; quarterly review and maintenance of an adequate allowance for loan and lease losses; and a profit plan. Primary capital was to be maintained at a predetermined ratio to total assets, the internal audit program revised and the written liquidity, asset and liability policy revised.

171. Bank with assets of \$25 to \$50 million

Failure to perfect lien positions and overreliance on character in lending decisions resulted in deterioration in asset quality. Credit losses depressed historically high earnings and, coupled with large dividends, impacted capital adequacy. The bank loan review system was inadequate and the allowance for loan and lease losses needed to be reviewed periodically and maintained at an adequate level. The bank's policy on nonaccrual loans needed to be strengthened.

An Agreement required the bank to develop and implement a plan addressing the excessive criticized assets and restricting further lending to borrowers whose loans were criticized. A capital plan was called for, and the bank was required to bolster its loan review system and strengthen its policy governing nonaccrual loans. Dividends were restricted. The bank agreed to review its allowance for loan and lease losses periodically and maintain it at an adequate level.

172. Bank with assets of less than \$25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified assets. The decline in loan quality was primarily due to ineffective supervision and poor lending policies and procedures. The poor lending practices were highlighted by poor loan documentation, inadequate financial analysis, poorly structured repayment programs and poor collateralization practices. Violations of the bank's legal lending limit and improper loans to directors were reported.

An Agreement required the bank to: appoint a capable senior lending officer; correct all violations of law and regulation and adopt procedures to prevent their recurrence; eliminate the grounds of criticism of each asset in excess of \$10,000 and restrict making loans to borrowers holding criticized loans; develop a program to improve collections and reduce delinquent loans; obtain and maintain current and satisfactory

credit information and collateral documentation; revise its written lending policy; review the sufficiency and competency of the present managerial staff; implement a monthly loan review program; conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses; prepare an analysis of ongoing capital needs and submit a written capital plan; formulate written policies and procedures applicable to the investment portfolio; restrict payment of dividends; revise the bank's written liquidity, asset and liability management policy; correct all internal control deficiencies; and have a qualified accountant perform an audit.

173. Bank with assets of \$25 to \$50 million

A recent examination disclosed that the bank's overall condition was unsatisfactory. Criticized assets, centered in the loan portfolio, were high; credit and collateral documentation exceptions excessive; the allowance for loan and lease losses inadequate; and the internal loan review and written lending policy unsatisfactory. Earnings were poor due to high provisions to the allowance and capital was strained. The major cause of deteriorated asset quality was the poor lending practices of prior management. Lax supervision by the board was also evident. The consumer compliance program was weak. Violations of law were cited with one violation of 12 U.S.C. §84. A funds management policy was needed. Capital was minimal, and an investment policy was needed. The internal audit program and internal controls were weak.

An Agreement required the bank to: adopt and implement a program addressing the criticized assets; obtain current and satisfactory credit information for all loans; maintain the allowance for loan and lease losses at an adequate level and review its adequacy periodically; strengthen the loan review system; and correct all violations of law, including a violation of 12 U.S.C. §84. A funds management policy and investment policy were to be developed. The internal audit program was to be improved and internal controls strengthened. Collateral was to be perfected in all appropriate cases. A capital plan was to be developed and followed. The consumer compliance program and collection efforts were to be strengthened.

174. Bank with assets of less than \$25 million

A recent examination disclosed a significant volume of classified assets with liberal renewal and extension practices. All management decisions were vested in the president and there was no management succession plan. Formal policies were needed in several areas. The lack of an internal loan review program and failure to recognize loan losses on a timely basis

contributed to the inadequacy of the allowance for loan and lease losses. Earnings were substantially reduced by the allowance for loan and lease losses provision. Violations of law were cited.

An Agreement required the bank to: develop a management study; adopt a written program addressing criticized assets, a written loan policy, and a loan review program; maintain the allowance for loan and lease losses at an adequate level; correct violations of law; improve bank earnings; and establish an audit program.

175. Bank with assets of less than \$25 million

A recent examination revealed a significant volume of criticized assets. The allowance for loan and lease losses was inadequate and an extraordinary provision was required to restore it to an adequate level. Capital was marginal. The bank's collection policy was weak. The loan policy needed revision.

An Agreement required: a workout program for problem credits; a revised loan policy; intensified collection efforts and collection policy; an adequate allowance for loan and lease losses; a profit plan; maintenance of primary capital at a predetermined level in relation to total assets; and preapproval of dividends.

176. Bank with assets of \$50 to \$100 million

An examination revealed excessive deterioration in asset quality, increased loan losses and declining earnings. Past due levels were high. Earnings performance has been adversely impacted by provisions required to replenish the allowance for loan and lease losses and weak net interest margins. Weak supervision by the board and executive management was considered the primary reason for the bank's problems. Loan administration was inadequate; non-adherence to bank policy was prevalent and management report systems were inadequate.

An Agreement required the bank to: employ an outside consultant to perform an evaluation of present management; eliminate the grounds of criticism of each asset in excess of \$70,000 and cease making loans to criticized borrowers without board certification; adopt and implement a program to control delinquency and improve recovery levels; maintain an adequate allowance for loan and lease losses; correct all credit and collateral exceptions; obtain and analyze current and satisfactory credit information prior to extending credit in any form; adopt and implement appropriate policy covering other real estate owned; strengthen the internal audit function; and establish an adequate internal loan review system. The bank was to institute a capital program to ensure that primary

capital was maintained at a predetermined ratio to total assets. A written funds management policy was to be developed.

177. Bank with assets of more than \$1 billion

An officer of the bank had his loan customers take out nominee loans for him. He was indicted for violation of 18 U.S.C. §656 (misapplication of bank funds). However, he was acquitted of all charges.

A Suspension pursuant to §1818(g) was issued after indictment. When a not guilty verdict was returned, the suspension lapsed.

178. Bank with assets of less than \$25 million

A current examination disclosed that the bank's loan portfolio contained a substantial amount of criticized assets. A senior lending officer was needed. Appropriate credit information was missing on several loans and collection efforts were weak. The bank needed a loan review system, and the allowance for loan and lease losses had not been reviewed periodically or maintained at an adequate level. Violations of law were cited.

An Agreement required the bank to develop a plan addressing the criticized assets and hire a new senior lending officer. Current and satisfactory credit information was to be obtained for all loans and collection efforts were to be strengthened. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. The bank was to establish a loan review system and violations of law corrected and procedures developed to prevent recurrence.

179. Bank with assets of less than \$25 million

An examination revealed that the bank lacked a funds management policy and the bank's investment policy needed revision. The lending policy was out of date and management needed a lending officer/collector who could take charge of the lending function. Collection efforts were weak and a loan review system was needed. The adequacy of the allowance for loan and lease losses was not frequently reviewed and criticized assets were excessive. The internal audit program was inadequate and several internal controls criticisms were made.

A Memorandum of Understanding required the bank to adopt and implement a funds management policy and an investment policy. The lending policy was to be revised and updated and a capable lending officer hired. Collection efforts were to be strengthened and the allowance for loan and lease losses reviewed

periodically and maintained at an adequate level. Criticized assets were to be addressed in a written program, as were internal audit and internal control inadequacies.

180. Bank with assets of \$25 to \$50 million

An examination revealed an excessive amount of criticized assets and numerous credit information exceptions. Collection efforts were weak and the bank needed a loan review system. The bank's allowance for loan and lease losses needed periodic review and an earnings plan was needed. Capital was marginal and an internal audit program was needed. A consumer compliance program was needed.

An Agreement required the bank to establish a program to address the criticized assets. Current and satisfactory credit information was to be obtained for all loans and a loan review system needed to be developed as was a 3-year capital program. The internal audit program was to be strengthened. A consumer compliance program was to be developed.

181. Bank with assets of \$50 to \$100 million

An examination revealed that the bank has excessive criticized assets, lacked current and satisfactory credit information, and needed new or revised policies for nonaccrual loans, collection efforts, funds management, securities trading and money market activities. The bank's allowance for loan and lease losses needed periodic review. Earnings were poor, capital was inadequate, and internal audit procedures were weak. Several violations of law were cited and the bank's general ledger needed to be reconciled.

A Memorandum of Understanding required the bank to develop a written program to address criticized assets and obtain current and satisfactory credit information for all loans. Policies were to be revised or adopted for nonaccrual loans, collection efforts, funds management, securities trading and money market activities. The allowance for loan and lease losses was to be maintained at an adequate level and reviewed periodically. An earnings plan was called for. Capital was to be maintained at a predetermined level and internal audit procedures strengthened. The bank's general ledger was to be reconciled and procedures established to maintain it on that basis.

182. Bank with assets of less than \$25 million

An examination revealed significant deterioration in asset quality, seriously inadequate capital and liquidity, repeat and new violations of law, inadequate management, and numerous insider transactions involving extensions of credit, fees, and expense ac-

counts. The bank held nonsufficient funds items for certain customers in cash items. Concentrations of credit and loans to borrowers outside of the bank's geographic trade area were noted.

An amended Order to Cease and Desist required the appointment of: a new compliance committee, a new chief executive officer, a senior lending officer and a cashier. The bank was required to maintain a ratio of equity capital to total assets as a predetermined level and to develop a 3-year capital program. Amended Reports of Condition and Income were required to be refilled and republished. The bank was required to increase liquidity and to reduce unwarranted concentrations. A policy to ensure that other real estate owned is managed in accordance with applicable laws was required. An independent certified public accountant was to be employed to review all expenses paid to employees, directors, former employees and their relatives. All nonsufficient funds items were to be processed according to industry standards for returned items. The bank could not extend credit to directors, officers or other insiders whose loans were criticized until such criticisms were eliminated. Extensions of credit were restricted to be within the delineated trade area under the Community Reinvestment Act. The acquisition of loan participations was restricted.

183. Bank with assets of less than \$25 million

An examination revealed an excessive level of criticized assets and of credit and collateral exceptions, as well as an inadequate level of the allowance for loan and lease losses. Management, board supervision, and loan administration were inadequate. Concentrations of credit and loans to borrowers outside of the bank's geographic trade area were noted. The bank lacked an effective loan review system. Planning for the bank's capital and liquidity needs was inadequate. Several violations of law were cited.

An Order to Cease and Desist was issued requiring the bank to eliminate the basis of criticism of assets and to conduct a study of current management and board supervision. The bank was also required to revise its written lending policy and to develop a program to improve its loan administration. A revised description of the bank's trade area was to be included in its community reinvestment act statement. Concentrations of credit were to be monitored. An adequate allowance for loan and lease losses was to be maintained. Credit information exceptions were to be corrected. The bank was required to develop a loan review system, a profit plan, and a business plan. The bank was also required to revise its liquidity, asset and liability management policy and to review its

liquidity on a monthly basis. A 3-year capital program was to be developed. The declaration and payment of dividends were restricted, and the accumulation of brokered deposits was prohibited. Violations of law were to be corrected. The bank was required to prepare monthly progress reports.

184. Bank with assets of \$50 to \$100 million

An examination revealed deficiencies in management's capability to run the bank. A senior lending officer was needed and the bank's loan policy needed revision. Criticized assets were excessive. Current credit information was lacking on several loans and the loan review system was out of date. The allowance for loan and lease losses needed periodic review and the bank's nonaccrual policy was deficient. Collection efforts were weak and concentrations of credit were not monitored and controlled. Capital was strained and a written funds management policy needed. Violations of law were cited.

An Agreement required hiring an outside management consultant to review the bank's management. A senior lending officer was to be added. The loan policy was to be revised, current and satisfactory credit information obtained for all loans and the loan review system revised and updated. A program was to be developed addressing the criticized assets. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level and collection efforts strengthened. Concentrations of credit were to be subject to a policy of monitoring and control. Capital was to be maintained at a minimum level in relation to assets and a written funds management policy developed. Violations of law were to be corrected.

185. Bank with assets of \$50 to \$100 million

An examination revealed that the chief executive officer was ineffective and that management was generally inadequate. Criticized asset levels were inordinately high and collection efforts were weak. Credit exceptions were excessive and nonaccrual loans were high. The allowance for possible loan and lease losses was inadequate. No sufficient lending policy, funds management policy or profit plan was found. Capital and the bank's audit programs were inadequate.

An Order to Cease and Desist required the bank to: implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; implement a program to improve collection efforts; correct all credit exceptions and refrain from granting any new extensions of credit without obtaining and ana-

lyzing sufficient credit information; review and revise its lending policy; review and maintain an adequate allowance for loan and lease losses including the accurate and timely recognition of loss; maintain a primary capital to total asset ratio at a predetermined level; develop a 3-year capital program; appoint a capable chief executive officer subject to OCC approval; establish a loan review system; develop and implement an effective collection program; correct all violations of law; develop a profit plan; and prohibit the acceptance of brokered deposits.

186. Bank with assets of less than \$25 million

An examination disclosed that the bank had an excessive amount of criticized assets attributable primarily to weaknesses in the chief executive officer position. The bank's lending policy needed updating and the loan review system was nonexistent. Collection efforts were weak and satisfactory credit information missing on several loans. The allowance for loan and lease losses needed to be reviewed periodically and capital was minimal. Earnings were low and the bank had no funds management policy.

An Order to Cease and Desist required the bank to hire a new capable chief executive officer and to develop a program for dealing with the excessive criticized assets. The lending policy was to be revised, a loan review system established, collection program strengthened and current and satisfactory credit information obtained on all loans. The allowance for loan and lease losses was to be reviewed periodically and a 3-year capital plan developed. Dividends were restricted and a profit plan called for. A funds management policy was to be developed.

187. Bank with assets of \$25 to \$50 million

An examination revealed that there were weaknesses in management and director supervision of the bank. There was an excessive number of criticized assets and current and satisfactory credit information was lacking on several loans. The bank's loan administration needed improvement and collection efforts were weak. There was no policy governing nonaccruals and the bank's written lending policy needed revision. Many loans were being made outside the bank's trade area. No formal loan review policy had been devised. The allowance for loan and lease losses needed periodic review and the bank's earnings were weak. The bank's capital was inadequate. Violations of the bank's lending limits under 12 U.S.C. §84 were found as well as other violations of law. A funds management policy was needed and no written contingency plan for the bank's EDP function had been developed. An internal audit program was needed and internal control deficiencies existed.

An Order to Cease and Desist required the bank to hire an outside consultant to review management and director supervision. A program was required addressing the criticized assets and loan administration deficiencies. A nonaccrual policy was to be devised and collection efforts strengthened. The bank's lending policy was to be revised and lending outside the bank's trade area restricted. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. Capital was to be increased to a minimum level in relation to total assets and violations of law, including violations of 12 U.S.C. §84, were to be corrected. A funds management policy was to be devised and followed as was a contingency plan for the EDP function. An audit program was to be established and internal control deficiencies corrected.

188. Bank with assets of \$25 to \$50 million

A recent examination revealed weaknesses in management supervision. There was an excessive level of criticized assets and collection efforts were weak. Loan policy was not adhered to and current, satisfactory credit information was not present on several loans. The bank's other real estate owned was not managed in accordance with 12 U.S.C. §29 and Interpretive Ruling 7.3025 and a comprehensive policy was needed. Earnings were low. Capital was inadequate and the funds management policy needed revision. The allowance for loan and lease losses needed to be reviewed periodically and maintained at an adequate level. Liquidity was marginal. The investment policy was out of date and several violations of law were cited. Internal control deficiencies were found and no policy existed to control and monitor concentrations of credit.

An Agreement required the bank to devise a written program to address the criticized assets and strengthen collection efforts. An outside consultant was called for to review management of the bank should the District Administrator determine this was necessary. Current and satisfactory credit information was to be maintained, the loan policy adhered to and OREO managed in accordance with 12 U.S.C. §29 and 12 C.F.R. §7.3025. An earnings plan was called for and the bank agreed to periodically monitor the allowance for loan and lease losses and maintain it at an adequate level. Liquidity was to be closely monitored and a revised investment policy developed. Internal control deficiencies were to be corrected and the funds management policy strengthened. Capital was to be raised to a preset minimum in relation to total assets and an earnings plan established. Concentrations of credit were to be governed by a new policy and violation of law corrected.

189. Bank with assets of \$100 to \$500 million

An examination revealed that the bank had an excess of criticized assets. Collection efforts were weak. The allowance for loan and lease losses was in need of periodic review and the loan review system needed updating, as did the lending policy. The bank had not followed its loan policy, and participation loans were taken without compliance with OCC guidelines in Banking Circular 181. Capital was marginal and earnings were weak. Violations of law were cited.

A Memorandum of Understanding required the bank to establish a program addressing the excessive criticized assets; strengthen its collection program; review the allowance for loan and lease losses periodically and maintain it at an adequate level; revise the bank's lending policy and its loan review system; establish a procedure requiring the bank to follow its loan policy; follow the guidelines in Banking Circular 181; achieve and maintain a minimum level of capital in relation to total assets; restrict dividends; develop a strategic plan to bolster earnings; and correct all violations of law.

190. Bank with assets of less than \$25 million

An examination of the bank revealed primary capital to be at an unacceptable level because of greater loan losses than expected. In response, the bank filed and received approval for a preferred stock issuance increasing primary capital to a more acceptable level.

An Agreement required the bank to maintain a ratio of primary capital to total assets at a minimum level.

191. Bank with assets of \$25 to \$50 million

An examination of the bank revealed that classified assets were excessive. Capital was inadequate. Earnings had deteriorated significantly, and because of the excessive reliance on brokered and other deposits, the bank's liquidity position was precarious. The bank had no budget and was operating without financial or capital plans. Loans were of poor quality and had a large number of credit and collateral exceptions. Supervision by the board and management was deemed totally inadequate. Compliance with laws, rules and regulations in both the commercial and consumer lending areas was poor. Loan portfolio administration was deemed inadequate and concentrations and losses on several large lines were deemed indicative of the poor and ineffective quality of management. Specific problems were noted in all areas of loan function from inaccurate loan applications/collateral documents to poor participation procedures and loan reviews. The allowance for loan and lease losses was deemed inadequate. Funds

management was considered inadequate and the bank's internal controls were weak. The bank did not have an independent or effective internal audit program.

An Order to Cease and Desist was entered into that required the bank to review its management; develop a program to address the criticized assets; obtain current and satisfactory credit information for all loans cited in the examination; and revise its loan review system. Liquidity was to be reviewed daily; a funds management policy was to be adopted; and the concentrations of credit in the loan portfolio were to be addressed in a new policy. The bank was to review the allowance for loan and lease losses and maintain primary capital at or above a predetermined level. No dividends were to be paid and the bank was to stop accepting brokered deposits. The bank was to develop and implement a written internal audit program; strengthen internal control weaknesses; and take all steps necessary to correct any violations specifically taking steps to correct all lending limit and consumer statute violations.

192. Bank with assets of less than \$25 million

A recent examination revealed an excessive amount of criticized assets. The bank's lending policy was outdated. A senior lending officer was needed. Collections were weak. Current credit information was deficient. The bank needed an effective loan review system. The allowance for loan and lease losses needed to be revised periodically and maintained at an adequate level. Management was inadequate. Violations of law were cited. A funds management policy was needed. Electronic data processing deficiencies were cited and amended call reports were necessary to accurately reflect the condition of the bank.

An Agreement required the bank to devise a program to address the criticized assets; revise the lending policy; appoint a new senior lending officer; obtain current and satisfactory credit information on all loans as well as perfect collateral on secured loans; revise the loan review system; and conduct management study. In addition, the Agreement required the bank to periodically review the allowance for loan and lease losses and maintain it at an adequate level. Violations of law were to be corrected; a funds management program devised and followed; EDP deficiencies were to be addressed and amended; and call reports were to be filed.

193. Bank with assets of less than \$25 million

An examination revealed excessive, criticized assets and inadequate management and board supervision.

A new chief executive officer was needed and the bank lacked a senior lending officer. Credit information exceptions were excessive and several large concentrations of credit had developed involving out-of-area lending which were difficult to adequately supervise by the bank. Real estate collateral and had not been properly appraised, collection efforts were weak, and the bank needed a written loan policy and loan review system. The bank's nonaccrual loan policy was inadequate as was its allowance for loan and lease losses. Capital was inadequate. The bank needed a written funds management policy. Liquidity was inadequate, and the bank had no budget or future planning process. Violations of law were cited, including violations of the Fair Credit Reporting Act (15 U.S.C. §1681). Internal control deficiencies were cited.

An Order to Cease and Desist required a program addressing the excessive criticized assets; a new chief executive officer and senior lending officer; adequate credit information for all loans, a program to monitor the concentrations of credit; and to confine lending to the bank's trade area. The bank was ordered to obtain independent appraisals on its real estate collateral; establish a written loan policy and loan review system; strengthen its nonaccrual policy; and review its allowance for loan and lease losses periodically and maintain it at an adequate level. A capital injection was required as was a funds management policy and provisions for increased liquidity. A budget and strategic operating plan was called for and violations of law were to be corrected including the violations of 15 U.S.C. §1681. Internal control deficiencies were to be corrected. Dividends were restricted.

194. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets, weak and ineffective management and board of director supervision, lack of proper credit information on many loans, weak collection efforts, and lack of a nonaccrual loan policy and overdraft policy. The loan review system was in need of revision and the allowance for loan and lease losses in need of periodic review. There was no conflict of interest policy and the funds management policy was not being adhered to. Liquidity was marginal and capital was inadequate. Violations of law were cited. An internal audit program was needed and a recent call report should have been refiled.

An Order to Cease and Desist required the bank to devise a program addressing the criticized assets and conduct a study of management and supervision by the board of directors. Current and satisfactory credit

information was to be obtained for all loans and collection efforts strengthened. A nonaccrual loan policy was to be developed along with an overdraft policy. The bank's loan review system was to be adhered to, as was the allowance for loan and lease losses, which was to be revised and reviewed periodically and maintained at an adequate level. Liquidity was to be monitored closely and additional capital injected. Violations of law were to be corrected and an internal audit program developed. An amended call report was to be filed and published. A comprehensive conflict of interest policy was to be devised and adopted.

195. Bank with assets of \$50 to \$100 million

A current examination disclosed excessive criticized assets and questionable leadership in the areas of bank management and supervision by the board of directors. A loan review system was needed and collection efforts were weak. The allowance for loan and lease losses was not maintained at an adequate level and operating policies needed revision and updating. Earnings were weak and capital was inadequate. Violations of law were cited and an internal audit program was lacking.

An Agreement required the bank to develop a program addressing the criticized assets; employ an outside management consultant to conduct a study of management and board supervision; establish a loan review system; strengthen collection efforts; maintain an adequate allowance for loan and lease losses, revise and update bank operating policies; develop a profit plan; achieve primary capital at a predetermined level in relation to assets; restrict dividends; correct violations of law; and devise an internal audit program.

196. Bank with assets of \$50 to \$100 million

The bank experienced asset deterioration due to a breakdown in sound lending controls. The bank needed a nonaccrual loan policy and a formal problem loan review system. The allowance for loan and lease losses was inadequate and greater controls over delinquencies and collection efforts were needed. A new senior lending officer was needed. Earnings were considered mediocre. In addition several violations of law were noted in the commercial, consumer and trust areas.

A Memorandum of Understanding required immediate correction of the cited violations of law, together with procedures implemented to reduce the basis of criticism for all criticized assets over a certain size. The bank was to formalize its problem loan review function, and formally analyze the allowance for loan and lease losses at least quarterly. Further, the bank is to ana-

lyze the quality and quantity of staffing in the lending area at least annually and report monthly to the District Office on its efforts to employ a qualified senior lending officer. Policies were required to be developed for identifying nonaccrual loans, reducing delinquencies, and strengthening collection efforts. Dividends were restricted.

197. Bank with assets of \$25 to \$50 million

An examination revealed that the bank had several violations of law and regulations. Criticized assets were excessive and the bank's lending policy needed revision. The bank had no loan review system, collection efforts were weak, and current and satisfactory credit information was not obtained on all loans. Several collateral exceptions were listed and the allowance for loan and lease losses was not maintained at an adequate level. A funds management policy was lacking and several internal control deficiencies were cited.

A Memorandum of Understanding required the bank to correct all violations of law; establish a program for addressing the criticized assets; revise the lending policy; establish a loan review system; strengthen collection efforts; obtain satisfactory credit information on all loans and correct collateral exceptions; review the allowance for loan and lease losses periodically and maintain it at an acceptable level; establish a funds management policy; and correct internal control deficiencies.

198. Bank with assets of \$50 to \$100 million

An examination disclosed very high criticized assets in the loan portfolio, ineffective management and supervision by the board of directors, the lack of an effective loan review system, no written policy governing renewals or nonaccruals, an out-of-date lending policy, an inadequate allowance for loan and lease losses, marginal capital, and a funds management policy in need of revision.

An Agreement required the bank to devise and implement a plan addressing the criticized assets; conduct a study of management and board supervision in order to make improvements; establish a loan review system; institute a renewal policy and a policy on nonaccruals; review and revise the lending policy; periodically review the allowance for loan and lease losses and maintain it at an adequate level; devise a capital plan; and establish a funds management policy.

199. Bank with assets of \$25 to \$50 million

An examination revealed the bank to be operating without a chief executive officer. Violations of law were cited. Criticized assets were high. The lending policy needed revision and collection efforts were weak. Current credit information was lacking on many loans and the bank had no funds management policy. Capital was marginal and the bank had no written consumer compliance program. Internal control deficiencies were cited.

An Agreement required the bank to correct violations of law; hire a chief executive officer; establish a program dealing with the criticized assets; obtain current credit information for all loans; strengthen collection efforts; revise the lending policy; devise a funds management policy and a capital plan; establish a written consumer compliance program; and correct internal control deficiencies.

200. Bank with assets of less than \$25 million

An examination revealed that the bank's capital was marginal. An excessive amount of criticized assets was disclosed and the bank had no effective internal loan review system. The allowance for loan and lease losses was inadequate and current credit information was lacking on several loans. The lending policy was in need of revision and no guidelines existed governing loan participations. Other real estate owned (OREO) had not been handled in accordance with 12 U.S.C. §29 and Interpretive Ruling 7.3025 (12 C.F.R. §7.3025).

An Agreement required the bank to adopt a capital plan which would require that capital be maintained at or above a predetermined level and devise a program addressing the criticized assets. An internal loan review system was to be adopted and the allowance for loan and lease losses reviewed periodically and maintained at an adequate level. Current and satisfactory credit information was to be obtained for all loans, the lending policy revised, and guidelines established governing participations. OREO was to be maintained consistent with law and regulation.

201. Bank with assets of \$25 to \$50 million

An examination revealed that the bank had excessive criticized assets. Management was ineffective. The bank's lending policy was in need of revision and a nonaccrual loan policy was needed. The bank had no loan review system and current credit information was lacking on several loans. The allowance for loan and lease losses was inadequate and a policy was needed to monitor concentrations of credit. Violations of law were cited and the funds management policy was in

need of revision. There was no internal audit program and a consumer compliance program was lacking. Violations of Equal Credit Opportunity Act regulations were found. Capital was marginal.

An Agreement required the bank to analyze management needs and develop a program addressing the criticized assets. The lending policy was to be revised and a policy adopted governing nonaccrual loans. A loan review system was to be developed and current credit information obtained where lacking. The allowance for loan and lease losses was to be maintained at an acceptable level and concentrations monitored. Violations of law were to be corrected and the funds management program revised. An internal audit program was to be developed and a capital plan devised and developed. Violations of Equal Credit Opportunity Act regulation (12 C.F.R. §202) were to be corrected and a consumer compliance program adopted.

202. Bank with assets of less than \$25 million

The bank was operating under an Order to Cease and Desist. A current examination disclosed that the bank's capital had fallen to an unacceptable level.

An amended Order to Cease and Desist required the bank to maintain its primary capital at or above a predetermined level in relation to total assets and plan for future capital needs.

203. Bank with assets of \$50 to \$100 million

An examination disclosed problems in the loan administration area. Criticized assets were high and there were deficiencies in various loan administration policies. The allowance for loan and lease losses was inadequate. Funds management policies and capital were not adequate.

An Agreement required the bank to have a management study performed by the board of directors; devise a written program to eliminate criticized assets; establish procedures to ensure an adequate allowance for possible loan losses; and implement a written loan administration program. In addition, the bank was required to review its funds management policy, develop a capital program, not pay dividends without prior written approval of the District Administrator and develop a profit plan.

204. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, funds management policy, and the loan policy were lacking or in need of revision. Current and satisfactory credit information

was lacking on many loans and the allowance for loan and lease losses was not maintained. Violations of 12 U.S.C. §84 and 31 C.F.R. §103 were cited. Collateral documentation exceptions existed. Capital was marginal. Liquidity was strained and concentrations of credit were uncontrolled. The internal audit program and internal controls were deficient and reports of condition were not filed consistent with call report instructions.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study review; revise its loan review system, lending policy and funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law including the violations of 12 U.S.C. §84 and 31 C.F.R. §103 cited; restrict dividends and control the concentrations of credit; and correct the internal audit and internal controls deficiencies. The bank was also required to file reports of condition consistent with the call report instructions and closely monitor liquidity. Finally, the bank was required to obtain current and satisfactory credit information on all loans and perfect collateral on secured loans.

205. Bank with assets of \$100 to \$500 million

Two banks were examined in anticipation of a merger creating the above institution. The results of each examination at both institutions indicated problems in areas of loan administration, deteriorating asset quality and capital adequacy. One bank suffered from lax management and board supervision.

An Agreement required the bank resulting from the merger to take all action necessary to correct violations of law; employ an independent outside auditor, and take action with regard to criticized assets. In addition, the board was to maintain a loan review system; an adequate allowance for loan and lease losses; primary capital at or above a minimum level; and prepare a budget. The bank was required to revise its funds management policy.

206. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. A senior lending officer was needed. Bank operating policies, including the loan review system, nonaccrual policy, loan policy, and investment policy, were lacking or in need of revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including violations of or need for a consumer

compliance program. Collections were weak and collateral documentation exceptions were noted. Management fees and expenses were large and not fully documented and the board of directors was dominated by bank insiders who operated without a conflict of interest policy. A budget was needed and internal controls were deficient.

An Agreement required the bank to develop a program addressing the criticized assets; hire a senior lending officer; review and revise its loan review system and lending policy; and develop a nonaccrual policy, a funds management policy and an investment policy. The bank was required to review the allowance for loan and lease losses periodically and maintain it at an adequate level; correct all violations of law; develop a conflict of interest policy and document fees and expenses in accordance with Banking Circular 115; amend certain reports of condition; appoint two additional outside directors to the board; strengthen collections; develop a budget; and address the internal control deficiencies. Finally, the bank was required to obtain current and satisfactory credit information on all loans, perfect collateral where needed and restrict dividends.

207. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Bank operating policies, including the loan review system, nonaccrual policy, funds management policy, loan policy, and investment policy, were lacking or in need of revision. The allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited. Collections were weak and collateral documentation exceptions were noted. Capital was marginal. A senior lending officer was needed. Earnings were weak.

An Agreement required the bank to develop a program addressing the criticized assets; appoint a new senior lending officer; review and revise its loan review system and lending policy; develop a nonaccrual policy, an investment policy and a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; restrict dividends; strengthen the collection program; and develop a budget.

208. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Bank operating policies, including the loan review system, funds management policy and loan policy, were lacking or in need of revision. Current and satisfactory credit information was lacking on many

loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited. Collateral documentation exceptions were noted. Internal controls and internal audit deficiencies were reported and a profit plan was needed to address the low earnings.

An Agreement required the bank to develop a program addressing the criticized assets; review and revise its loan review system, lending policy; develop a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level, and correct all violations of law. The bank agreed to devise a profit plan and correct internal control and internal audit deficiencies. The bank also agreed to obtain proper credit information for all loans and perfect collateral on secured loans.

209. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Management was inadequate. Bank operating policies, including the loan review system, nonaccrual policy, loan policy, and funds management policy were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, collections were weak and collateral documentation exceptions existed. Liquidity was marginal. A senior lending officer was needed.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; appoint a capable senior lending officer; review and revise its loan review system and lending policy; develop a nonaccrual policy and an investment policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; restrict dividends; perfect collateral on all secured loans; obtain current and satisfactory credit information on all loans; monitor liquidity frequently; and strengthen collection efforts.

210. Bank with assets of \$50 to \$100 million

An examination revealed that management was inadequate. Bank operating policies, including the loan policy and funds management policy, were lacking or in need of revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, collections were weak and collateral documentation ex-

ceptions existed. Capital was marginal. The internal and external audit programs were deficient and internal controls needed strengthening. No budgeting process was used.

An Agreement required the bank to conduct a management study; review and revise its lending policy and funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; correct internal and external audit deficiencies; develop a budget; strengthen collection policy; correct internal control weaknesses; perfect collateral on all secured loans and obtain current and satisfactory credit information; and strengthen the internal and external audit functions.

211. Bank with assets of \$50 to \$100 million

An examination of the bank revealed it to be in an unsatisfactory condition. Asset quality had deteriorated substantially. Weak loan administration was evident by the extremely high level of financial statement and collateral exceptions. The allowance for loan and lease losses was insufficient to cover losses and a special provision was required. Earnings had been adversely impacted by the poor quality of the bank's assets. Several violations of law were cited.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to obtain financial information as well as collateral documentation. It further agreed not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The adequacy of the bank's allowance for loan and lease losses was to be reviewed periodically. Dividends were to be restricted. The bank agreed to develop a 3-year capital plan and to take steps necessary to correct violations of law and regulation.

212. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Management and board supervision was deficient. Bank operating policies, including the loan review system, were in need of revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including violations of 12 U.S.C. §84. Collateral documentation exceptions were cited. A funds management policy was needed and deficient-

cies were found in the bank's internal audit program and internal controls. Capital was marginal.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a study of management and board supervision; review and revise its loan review system; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law, including violations of 12 U.S.C. §84; develop a funds management policy and an internal audit program; and correct deficiencies in the internal controls. Current credit information was required for all loans and collateral was to be perfected on secured loans.

213. Bank with assets of \$25 to \$50 million

An examination revealed an excessive volume of classified assets, weak compliance controls and inadequate board supervision. Collection efforts were weak. Funds management policies were inadequate. Violations of law were cited, including several violations of consumer regulations. The allowance for loan and lease losses was inadequate, as was the lending policy, the loan review system and the nonaccrual policy. The bank president appeared to be receiving an exorbitant salary in view of his performance.

An Agreement required the bank to develop written plans to reduce criticized assets; develop an internal loan review system; obtain current financial information on all loans and perfect liens on pledged collateral; improve recognition of nonaccrual loans; expand the lending policy; review the allowance for loan and lease losses periodically; develop a consumer compliance program and reimburse overcharged customers; correct violations of law; implement a budget process; expand the funds management policy; and review the president's salary.

214. Bank with assets of \$25 to \$50 million

An examination of the bank disclosed that a former dominant president had failed to properly manage the bank. Board of directors involvement was minimal. The president was acting as president, chief executive officer and senior lending officer and dominated the others. The board approved a preferential loan to the president which was subsequently criticized as substandard. When a consultant reviewed the bank's management and systems, the president was terminated. An executive committee of the board had been running the bank. A subsequent examination noted that loan portfolio supervision was weak. The allowance for loan and lease losses was inadequate; the loan review system was inadequate; and collateral

exceptions were noted. The asset/liability management policy and liquidity were inadequate. Loan losses and poor financial management had caused earnings to be poor. Policies and planning were also deficient. Policies needed to be revised to reflect more meaningful guidelines in lending and maintaining the allowance for loan and lease losses. Audit coverage needed to be upgraded.

An Agreement required the bank to appoint a new, full-time and capable chief executive officer, and to study current management's effectiveness and capabilities as well as the adequacy of board supervision. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. It agreed to obtain adequate documentation with respect to all outstanding loans and not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The bank's allowance for loan and lease losses was to be assessed periodically. The bank agreed to review and strengthen its internal loan review system and to review and revise the written lending policy. A written funds management policy was to be devised. Liquidity would be reviewed monthly and a program developed to improve and strengthen the bank's internal audit function. A 3-year business plan and profit plan and a detailed budget were called for. Violations of law and regulation would be corrected.

215. Bank with assets of \$50 to \$100 million

An examination disclosed suspected insider abuse on the part of the principal shareholder who was experiencing severe financial problems. Insider abuse in related banks had been noted.

An Order to Cease and Desist required the bank to cease and desist making extensions of credit to the principal shareholder or related interests; obtain OCC approval for any management fees; give the OCC 30-days notice prior to the payment of dividends and board or management changes; and revise the conflict of interest policy.

216. Bank with assets of \$25 to \$50 million

An examination revealed significant deterioration in asset quality, past-due loans, and loan documentation due to inadequate board and management supervision in lending. The bank had grown rapidly; adequate staffing, planning and policy guidelines had not been established. The adequacy of the allowance for loan and lease losses was marginal. Capital was declining.

An Agreement required the bank to conduct a management study; devise a program addressing the

criticized assets; review and revise its loan policy and loan review process; develop a conflict of interest policy; correct all violations of law; obtain current and satisfactory credit information for all loans; review the allowance for loan and lease losses periodically and maintain it at an acceptable level; and develop a capital plan, an earnings plan and a consumer compliance program. Deficiencies in the bank's internal audit and internal control were to be corrected.

217. Bank with assets of less than \$25 million

Weak credit administration resulted in steady deterioration of asset quality. Poor practices included inadequate financial and collateral documentation, failure to establish repayment programs, an undue volume of unsecured lending and poor internal problem identification. Depressed earnings were further affected by credit losses.

An Agreement required the bank to develop a program addressing the criticized assets; obtain current credit information on all loans; perfect collateral; revise the loan policy; develop a loan review system; revise the allowance for loan and lease losses periodically and maintain it at an adequate level; adopt a program governing the purchase of loans and participations; develop a capital plan; restrict dividends; and develop an earnings and budget program.

218. Bank with assets of \$25 to \$50 million

Ineffective loan administration, predominantly attributed to prior management, resulted in asset deterioration. Identified loan losses had negatively affected earnings and the capital position exhibited negative trends.

An Agreement required the bank to correct all violations of law; devise a program addressing the criticized assets; obtain current credit information on all loans; improve loan administration efforts and collection; establish a policy on nonaccrual loans; maintain the allowance for loan and lease losses at an adequate level; develop a capital plan; restrict dividends; revise the funds management policy and strengthen collection efforts.

219. Bank with assets of \$25 to \$50 million

An examination indicated the condition of the bank had significantly deteriorated. Classified assets were high and many of the classified loans were contrary to established bank policy. Loans not supported by current credit information were excessive. The ability to identify problem credits needed immediate improvement and the allowance for loan and lease losses required a special provision to restore ade-

quacy. Preferential treatment of insiders was noted due to the unsecured nature of their debts, contrary to the loan policy. Earnings prospects were poor, and capital was inadequate.

An Agreement required the bank to establish a criticized asset program, conform to written loan policy; obtain current and satisfactory credit information; ensure participations conform to Banking Circular 181; develop an internal loan review; review the adequacy of the allowance for loan and lease losses periodically; improve collection efforts; prepare a business and capital plan; limit dividends; revise the asset/liability management policy; prohibit brokered deposits; correct violations of law; correct internal control deficiencies; implement an internal audit program; and develop a consumer compliance program.

220. Bank with assets of less than \$25 million

An examination of the bank revealed high levels of classified assets; a significant amount of delinquent and nonaccrual loans; lax loan administration practices; an inadequate level and analysis of the allowance for loan and lease losses; a need for improved policies and policy compliance; a strained capital position, and repetitive violations of law. The bank's asset/liability management practices needed improvement. Future earnings were questionable based on the need to increase the allowance for loan and lease losses provision and the large amount of identified nonaccrual assets. An ongoing business and profit plan had to be established, including an effective budget process.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank's written lending policy was to be revised. The bank agreed to implement a written program designed to improve and strengthen collection efforts. A nonaccrual policy was to be developed. The bank agreed to establish a loan review system to periodically review the bank's loan portfolio. Current and satisfactory credit information would be obtained for all loans and collateral exceptions would be corrected. The bank agreed to assess the adequacy of the bank's allowance for loan and lease losses, remedy deficiencies in the quarter of discovery, and to establish a program for the maintenance of an adequate allowance. A 3-year capital plan would be developed and violations of law and regulation corrected. The asset/liability policy would be revised and a budget developed. The bank agreed to have an independent certified public accountant perform an audit of the bank and render a written opinion.

The bank agreed to review and revise the bank's investment policy.

221. Bank with assets of more than \$1 billion

An examination revealed a high level of criticized assets. The bank's lending policy needed revision. Communications between the lending and account officers and senior management and the loan review staff needed to be increased and done in a timely fashion. An effective loan review program was lacking as was current and satisfactory credit information on many loans. The allowance for loan and lease losses was not periodically reviewed and maintained at an adequate level. Violations of law and regulations were cited, including violations of 12 C.F.R. §103.

An Agreement required the bank to devise and follow a program addressing the criticized assets and establish better communications between lending and account officers and senior management and the loan review staff to achieve a better loan review process. The Agreement required the establishment of an effective loan review program and review the allowance for loan and lease losses periodically to maintain it at an adequate level. A committee of the board of directors was called upon to review management and make recommendations for improvement where necessary. Current and satisfactory credit information was to be obtained for all loans and collateral exceptions were to be corrected. Violations of law were to be corrected, with particular attention given to corrections of the violations of 12 C.F.R. §103 (Bank Secrecy Act). The loan policy was to be revised.

222. Bank with assets of \$100 to \$500 million

An examination revealed inadequate management, weakness in lending practices, and excessive levels of criticized assets, credit information exceptions, and nonaccrual loans. The bank lacked an adequate internal loan review. The bank's allowance for loan and lease losses was inadequate. The bank's funds management and dividend payments were of concern. Deficiencies in the bank's trust department were noted. A violation of 12 U.S.C. §84 and violations of other laws were cited.

An Agreement required the bank to arrange for a study of management by an independent consultant or qualified holding company personnel. The basis of criticism of assets was to be eliminated. The bank's lending policy was to be revised. The bank was required to establish a loan review system and to correct all credit information exceptions. An adequate allowance for loan and lease losses was to be maintained. Greater supervision and control of nonaccrual loans was required. All violations of law, including

violations of 12 U.S.C. §84, were to be corrected. A funds management policy was to be developed. The declaration and payment of dividends were restricted. The bank was required to revise its budgeting program and to correct all deficiencies in its trust department.

223. Bank with assets of \$50 to \$100 million

An examination disclosed that a substantial amount of funds held in certificate of deposit accounts was wired to foreign based entities owned and controlled by the principal shareholder of the bank. The bank was unable to document that this wire activity was occurring at the direction of the depositors.

An amended Order to Cease and Desist required the board of directors to cease all wire transfers to third parties without first obtaining and maintaining written and verifiable authorization from depositors; ensure that all deposit taking activities are in accord with sound banking principles; and all wire transfers are in accord with OCC funds transfer policy and bank policy.

224. Bank with assets of more than \$1 billion

An examination disclosed that criticized assets had increased significantly. The bank's loan review system was not accurately identifying problem assets and the allowance for loan and lease losses was not maintained on an adequate basis. The bank's lending policy needed revision. Appraisals on the collateral for many real estate loans were lacking and not performed to reach fair value as defined under 12 C.F.R. §7.3025(d). Many loans were lacking current and satisfactory credit information, concentrations of credit were not monitored, and no written policy existed to control the bank's use of brokered funds. Bank Secrecy Act violations and limitations were cited. The bank had no written conflict of interest policy.

An Agreement required the bank to appoint a management committee of the board of directors to review bank management or employ consultants or experts to do so. A strategic plan of future operations was to be devised. A written program addressing criticized assets was to be devised and loans to borrowers whose loans were criticized restricted. An adequate loan review policy was to be maintained including provisions for periodic reports to the board. A written program for maintaining an adequate allowance for loan and lease losses was to be established and deficiencies corrected prior to filing the Call Report. The bank's lending policy was to be reviewed and revised. Real estate appraisals were to be made consistent with 12 C.F.R. §7.3025 and completed quickly for cases in which they were lacking. Current

and satisfactory credit information was to be obtained for all loans and concentrations of credit were to be monitored. A written policy governing and limiting the use of brokered funds was to be developed. All violations of law were to be corrected, procedures developed to prevent future violations and in particular, policies and procedures to ensure compliance with 12 C.F.R. §103 were to be adopted and implemented. A comprehensive conflict of interest policy was to be adopted.

225. Bank with assets of \$50 to \$100 million

An examination disclosed deterioration in the bank's condition with an increase in criticized assets, an inadequate allowance for loan and lease losses, high past due loans, and collateral and credit exceptions. Management was inadequate.

An Agreement required a management study and a special counsel report. The bank was required to take action to protect criticized assets, strengthen collection efforts, obtain credit information and establish a loan review system. The bank was to develop a nonaccrual policy, review the allowance for loan and lease losses, increase liquidity, prepare a budget, prepare a strategic plan, maintain primary capital at or above a preestablished level, obtain written approval before paying dividends and correct violations of law. Also, the bank was to cease accepting brokered deposits, review its investment policy, and develop a funds management policy.

226. Bank with assets of \$50 to \$100 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified credits. The decline in loan quality was primarily due to ineffective supervision and the failure to analyze current financial information. The allowance for loan and lease losses was inadequate, and a special provision to restore its adequacy resulted in a large operating loss. The excessive level of problem assets, the substantial loan losses, and inadequate board and management supervision rendered capital inadequate. Many of the bank's loan related problems could be attributed to the bank's recent merger with a bank of the same size. One violation of 12 U.S.C. §84 was noted and corrected, and a violation of 12 C.F.R. §12 was cited.

An Agreement required the bank to strengthen management through the use of an external management study, correct all violations of law and regulation, and adopt procedures to prevent their recurrence, eliminate the grounds for criticism of each asset in excess of \$100,000 and cease making loans to borrowers

holding criticized loans without prior board approval; correct all credit and collateral information exceptions and ensure such is maintained prior to granting new extensions of credit; develop acceptable lending policies and require adherence to the policies (including a policy on agricultural lending); develop and implement a loan review system; develop and implement a formal funds management policy, including a provision addressing brokered funds; maintain an adequate allowance for loan and lease losses; develop plans to attain and maintain primary capital at a predetermined ratio to total assets; and improve profitability through the preparation and analysis of an annual budget for balance sheet and income/expense accounts.

227. Bank with assets of \$25 to \$50 million

The bank was operating under an Agreement. The current examination did not disclose substantial improvement in the bank's condition. The bank was not complying with six of the eleven articles of the Agreement. The bank's primary problems were centered in the loan portfolio. Classified assets were excessive and financial statement exceptions had increased. Overdue loans were excessive. Management supervision of problem credits was inadequate. Management supervision was inadequate.

An Agreement required the bank to implement a program to eliminate criticized assets; correct violations of law and implement a program to prevent future violations; strengthen the bank's loan review system; maintain an adequate allowance for loan and lease losses; obtain current credit information and collect collateral exceptions, perfecting collateral where necessary; and appoint a qualified senior lending officer.

228. Bank with assets of \$25 to \$50 million

An examination revealed significant and rapid deterioration in the overall condition of the bank. In particular, the exam disclosed a high level of classified assets, numerous violations of law, inadequate management and ineffective supervision by the board, purchase of poor quality participations, reliance on highly volatile out-of-area deposits, poor earnings and strained liquidity. As a result, a Temporary Order to Cease and Desist had been issued.

A permanent Order to Cease and Desist required the bank to employ an independent outside management consultant; appoint a new chief executive officer; appoint a new senior lending officer; prevent outside directors from being involved in management of the bank; adopt a conflict of interest policy; correct violations of law; define a reasonable trade area; cease accepting brokered funds; maintain adequate liquid-

ity; revise the funds management policy; take action to reduce criticized assets; establish a loan participations policy; adhere to its lending policy; obtain credit information and collateral documentation; review and revise the lending policy; review and revise the internal loan review; review and maintain an adequate allowance for loan and lease losses; maintain primary capital at or above a predetermined minimum level and develop a capital plan; restrict payment of dividends; implement a business plan; adhere to its investment policy; correct internal control deficiencies; have an external audit performed; implement an internal audit program; and correct EDP deficiencies.

229. Bank with assets of \$100 to \$500 million

An examination revealed marked deficiencies in the quality of the bank's loan portfolio and also showed the effect this deterioration had on the bank's earning performance and capital structure. Classified assets had increased from the preceding examination. Violations of 12 U.S.C. §60, §4 and 375a and b were cited, and the bank was considered to be in a critical liquidity position. Credit and collateral exceptions were excessive.

An Order to Cease and Desist required the bank to appoint a new chief executive officer; correct all violations of law; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; ensure compliance with internal policies; correct all credit and collateral documentation exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy on nonaccrual loans; implement an internal loan review system; review and maintain an adequate allowance for loan and lease losses; maintain a primary capital to total asset ratio at or above a minimum predetermined level; develop a 3-year capital program; restrict the payment of dividends and reimburse illegal dividends; prepare a strategic plan; study and implement a management plan including a revision of the board's committee structure; adopt a conflict of interest policy; monitor the bank's liquidity position on a frequent basis and develop a plan for contingency funding; and correct internal control deficiencies and adopt an internal audit program.

230. Bank with assets of \$100 to \$500 million

An examination revealed continued deterioration in the quality of the bank's loan portfolio. Bank policies were weak, planning was poor, and the allowance for loan and lease losses was not maintained at an adequate level. Management was inadequate.

A Memorandum of Understanding required the bank to correct all violations of law; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; implement a program to improve collection efforts; correct all credit information exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy; implement an internal loan review system; review and maintain an adequate allowance for loan and lease losses; develop a 3-year capital program; restrict payment of dividends; prepare a budget for the current year and each subsequent year the Order is in effect; perform a management study and implement a management plan; correct internal control deficiencies and adopt an internal audit program; file amended Reports of Condition and Income; implement a trust audit program; and adopt policies on concentration of credit, nonaccruals, and funds management.

231. Bank with assets of \$500 million to \$1 billion

An examination disclosed deterioration in the bank's condition. The volume of classified assets had increased due to ineffective loan supervision. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information. The level of capital was considered inadequate and violations of law were found including several 31 C.F.R. 103 violations.

A Memorandum of Understanding required the bank to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; strengthen collection efforts; develop a written loan policy, a loan review system, a strategic plan, a funds management policy, a budget, a 3-year capital program, and an independent internal audit; correct violations of law; correct internal control deficiencies; and develop a plan to reduce dependence on borrowed funds.

232. Bank with assets of less than \$25 million

An examination revealed an excessive level of criticized assets and of credit and collateral exceptions, as well as an inadequate allowance for loan and lease losses. Management, board supervision, and loan administration were inadequate. The bank was cited for insider loans and other insider transactions, some of which constituted violations of law. Violations of 12

U.S.C. §84 and 12 C.F.R. §7.3025 were also cited. The bank also lacked an effective loan review system.

An Order to Cease and Desist was issued requiring the bank to appoint a compliance committee to conduct a study of current management and board supervision. A written comprehensive conflict of interest policy was required. The bank was also required to eliminate the basis of criticism of assets and was prohibited from extending credit to the bank's insiders whose loans were criticized. Credit information exceptions and collateral documentation exceptions were to be corrected. All extensions of credit were to be made in conformity with the bank's loan policies and procedures. A loan review system was to be developed. An adequate allowance for loan and lease losses was to be maintained. Written appraisals on parcels of other real estate owned were required. The bank was prohibited from extending credit to borrowers whose loans exceed the bank's lending limit in violation of 12 U.S.C. §84. Violations of law were to be corrected. The bank was required to review its written funds management policy. The accumulation of brokered deposits was prohibited. The bank was required to conduct monthly liquidity reviews and to prepare annual budgets and a 3-year strategic plan.

233. Bank with assets of \$100 to \$500 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased and many of the classified loans were to insiders. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information.

An Agreement required the board to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; strengthen collection efforts; develop a loan review system and a 3-year capital program; restrict dividends; make loan participations only in accordance with BC 181; develop a plan to reduce dependence on borrowed funds; obtain current and satisfactory credit information; and perfect collateral where appropriate.

234. Bank with assets of less than \$25 million

An examination disclosed continued deterioration in the bank's condition. Management and board supervision were considered inadequate; criticized assets were at an unacceptably high level; the bank was failing to adhere to its lending policy; the bank's loan

review system was unsatisfactory; loans unsupported by adequate credit information were at an unacceptably high level; the bank's allowance for loan and lease losses was inadequate; earnings and capital were insufficient; funds management policies and practices were unacceptable; the bank's external audit was inadequate; and reports of condition and income were not properly filed and published.

An Order to Cease and Desist required the bank to appoint a new chief executive officer; take action to reduce criticized assets; establish procedures to ensure adherence to the bank's lending policy; develop a satisfactory loan review system; obtain satisfactory credit information on loans lacking such information; improve and strengthen collection efforts; establish procedures to ensure maintenance of an acceptable allowance for loan and lease losses; develop profit and capital plans; pay dividends in accordance with applicable law; revise the bank's funds management policy; cease accepting brokered deposits; ensure performance of an annual external audit; and establish procedures to ensure filing and publication of accurate reports of condition and income.

235. Bank with assets of more than \$1 billion

An examination revealed significant weaknesses in the bank's condition. Capital was inadequate and earnings poor. Asset quality was poor because of excessive loan growth, inadequate staffing and poor risk selection. Violations of law were disclosed, many of which were related to insider dealings. A substantial percentage of the loans in the bank's newly established international department were insider-related. Broker/dealer activities were inadequately supervised and had led to large losses. Procedures for maintaining the allowance for loan and lease losses were inadequate. Liquidity was inadequate.

An Agreement required the bank to arrange for a management study by an independent consultant; develop a written program to improve the status of criticized assets and to certify the reasons for further extensions of credit to criticized borrowers; review and revise the loan policy; develop comprehensive procedures on international activities and limit insider international loans; develop a conflict of interest policy; limit and control transactions with affiliates; implement an internal loan review program; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; limit dividends; review and revise the funds management policy and investment policy; review liquidity on a monthly basis; prepare a 3-year business plan and budget; revise the bank's dealer activity policies; and adopt repurchase agreement policies; ensure compliance with rules of the

Municipal Securities Rulemaking Board; correct violations of law and correct internal audit and control deficiencies; and stop offering new products and services in the international and investment areas until the relevant plans were approved.

236. Bank with assets of \$25 to \$50 million

An examination revealed an excessive level of criticized assets, past due and nonaccrual loans, and credit and collateral exceptions. Management and board supervision were inadequate. Earnings were poor. Loan administration and the bank's loan review system were inadequate. The bank's allowance for loan and lease losses was inadequate. Capital and funds management were of concern, as were the bank's external and internal audit procedures. The bank's procedure for adding accrued interest due to the outstanding principal amount of loans and its procedures for accounting for transactions involving restructured loans and/or sales of foreclosed property were unacceptable.

An Order to Cease and Desist required the bank to employ an independent outside management consultant and to eliminate the basis of criticism of assets. The bank's lending policy was to be revised to specifically address agricultural loans. The bank was required to establish a loan review system and to adopt policies and procedures governing the supervision and control of nonaccrual loans. The bank was restricted in its ability to add accrued interest due on any loan to the outstanding principal amount of such loan. Collection efforts were to be strengthened. The bank was required to develop a program to improve its loan administration. Credit and collateral exceptions were to be corrected. An adequate allowance for loan and lease losses was to be maintained. The bank was required to develop a profit plan and a capital plan. Declaration and payment of dividends were restricted. A liquidity, asset and liability management policy was to be developed. The bank was to have an independent certified public accountant perform an external audit annually. An internal audit program was required. Violations of law were to be corrected. The bank was required to properly account for all transactions involving restructured loans or sales of foreclosed property.

237. Bank with assets of less than \$25 million

An examination revealed excessive levels of criticized assets and of credit and collateral exceptions. Losses were significant. Capital and the allowance for loan and lease losses were inadequate. Funds management was unsatisfactory. Management and board supervision were ineffective. The bank lacked an adequate loan review system. Loan administration

was unsatisfactory. The levels of past due loans and nonaccrual loans were excessive. Loss participations, liquidity, and internal audit procedures were of concern. Internal control deficiencies were noted. Violations of law were cited. There was substantial noncompliance with a previously executed agreement.

An Order to Cease and Desist was issued requiring the bank to establish a compliance committee. The bank was required to maintain capital at a predetermined level and to develop a 3-year capital program. The declaration and payment of dividends was restricted. The bank was required to employ an independent outside consultant to perform a study of management and board supervision. The basis of criticism of assets was to be eliminated. Credit and collateral exceptions were to be corrected. The bank was required to establish a loan review system and to revise its lending policy. The acquisition of loan participations was restricted, and extensions of credit were required to be in conformity with the bank's loan policies. Collection efforts were to be strengthened. Policies governing the supervision and control of nonaccrual loans were to be adopted. An adequate allowance for loan and lease losses was to be maintained. The bank was required to revise its liquidity, asset and liability management policy and to conduct monthly liquidity reviews. A profit plan and a 3-year strategic plan were to be developed. An internal audit program was to be adopted. Violations of law and internal control deficiencies were to be corrected. The acquisition of brokered deposits was prohibited.

238. Bank with assets of \$100 to \$500 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased to an excessive level due to ineffective loan supervision. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Management and board supervision were considered weak; loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information; and funds management procedures were unsatisfactory. The level of capital was considered inadequate and earnings were poor. Violations of law were found including a violation of 12 U.S.C. §84 on which losses had been incurred and reimbursement was appropriate and insider related activity was detected.

An Order to Cease and Desist required the bank to develop a written program to remove each criticized asset from that status, certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained;

have an independent management study conducted; hire a senior lending officer; strengthen collection efforts; develop a written loan policy, a loan review system, a strategic plan, a funds management policy, a profit plan, a 3-year capital program, and a conflict of interest policy; correct violations of law; restrict dividends; develop a plan to reduce dependence on borrowed funds; and take action to obtain reimbursement for 12 U.S.C. §84 violation losses.

239. Bank with assets of less than \$25 million

An examination revealed inadequate management and board supervision, an excessive volume of criticized assets and credit information exceptions, an inadequate allowance for loan and lease losses, and inadequate capital. Funds management policies and procedures were unsatisfactory. Loan administration and the bank's loan review system were inadequate. The level of nonaccrual loans was excessive. Internal and external audit practices were unsatisfactory. Internal control deficiencies were noted. Violations of law, including violations of consumer protection laws were cited.

An Order to Cease and Desist was issued requiring the bank to employ a senior lending officer and an independent outside management consultant. The bank's lending policy was to be revised to focus on agricultural loans. The bank was required to eliminate the basis of criticism of assets and establish a loan review system. Credit and collateral exceptions were to be corrected. An adequate allowance for loan and lease losses was to be maintained. The bank was required to adopt policies and procedures governing the supervision and control of nonaccrual loans. The bank was required to maintain capital at a predetermined level and to adopt a 3-year capital plan. The declaration and payment of dividends was restricted. The bank was required to revise its liquidity, asset and liability management policy and to correct all violations of law. A consumer compliance program and an internal audit program were to be developed. Internal control deficiencies were to be corrected. The bank was required to have an independent certified public accountant perform an external audit on an annual basis. Annual budgets were to be prepared.

240. Bank with assets of \$100 to \$500 million

An examination revealed inadequate management and board supervision, as well as excessive levels of criticized assets and of credit and collateral exceptions. Loan administration was inadequate, with an excessive level of past due loans. The bank lacked an adequate loan review system. The allowance for loan and lease losses was also inadequate. The bank's investment funds management activities were of con-

cern, as was its capital adequacy. Internal audit and internal control deficiencies were noted. Violations of law were also cited.

An Agreement required the bank to appoint a compliance committee to conduct a study of management and board supervision. The bank was required to eliminate the basis of criticism of assets and to correct credit and collateral exceptions. The bank's lending policy was to be revised. Collection efforts were to be strengthened. The bank was required to establish a loan review system and to maintain an adequate allowance for loan and lease losses. The bank was required to revise its investment policy and to develop a funds management policy as well as a 3-year capital program. Violations of law were to be corrected. The bank was to implement an internal audit program and to correct all internal control deficiencies.

241. Bank with assets of \$250 to \$500 million

An examination revealed an excessive level of criticized assets and of credit and collateral exceptions, as well as an inadequate level of the allowance for loan and lease losses. Management and loan administration were inadequate. The bank also had an ineffective loan review system. Capital and earnings were also inadequate. Several violations of law were cited.

An Agreement required the bank to employ an independent outside management consultant. The bank's written lending policy was to be revised. The bank was required to eliminate the basis of criticism of assets and to correct all credit and collateral exceptions. A loan review system was to be developed. An adequate allowance for loan and lease losses was to be maintained. Violations of law were to be corrected. The bank was required to develop a 3-year strategic plan and to revise its written investment policy and its written bank dealer activities policy. A 3-year capital program was to be developed. The declaration and payment of dividends were restricted. The bank was also required to implement a written consumer compliance program.

242. Bank with assets of \$50 to \$100 million

The failure by management and the board of directors to adopt safe and sound loan administration practices resulted in a significant increase in the level of classified assets. Earnings were adversely affected by heavy loan losses. Primary capital was considered marginal in view of the volume of classified assets and history of dividend payments. Violations of law were cited. Current and satisfactory credit information was lacking on many loans. The bank's trust department

needed auditing and the consumer compliance program was nonexistent.

An Agreement required the bank to develop a program to eliminate criticized assets; obtain adequate credit information; revise the lending policy; establish an internal loan review system; direct the audit committee to render an opinion on the bank's trust department; develop a written consumer compliance program; correct violations of law and regulation; expand the internal audit program; and maintain an adequate level of capital.

243. Bank with assets of \$25 to \$50 million

An examination of the bank disclosed asset quality had declined significantly. Loans were made in areas where management's expertise was lacking, such as real estate development and energy. Past due loans, nonperforming assets and financial exceptions had all increased. Earnings were poor. The bank had experienced an operating loss for the first quarter. The level of classified and nonperforming assets, the inadequacy of the allowance for loan and lease losses and continued heavy dividend payout combined to make capital marginal. The current loan to deposit ratio was high indicating a need to monitor liquidity closely. The funds management policy needed revision. Several violations of law and regulations were disclosed. The nature of the violations indicated a lack of proper training for bank personnel.

An Agreement required the bank to take steps necessary to correct violations of law and regulation, and to adopt a strategic plan for the bank focusing on past and future lending philosophy, management's expertise in the lending areas and current and future market trends. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to review and revise its investment policy. The bank agreed to develop and ensure a policy that addressed responsibility and authority for other real estate owned (OREO) properties, proper accounting procedures, procedures on "covered" OREO sales, timely appraisals, diligent sales efforts and reporting systems. Current and satisfactory credit information was to be obtained for all loans, and where applicable, collateral documentation. The bank will not purchase any asset without complying with the provisions of Banking Circular 181. The bank agreed to implement written policies and procedures to eliminate and prevent the creation of undue concentrations of credit within the loan portfolio. The adequacy of the bank's allowance for loan and lease losses was to be assessed, deficiencies remedied in the quarter of discovery, and a

program established for the maintenance of an adequate allowance for loan and lease losses. Dividends were restricted.

244. Bank with assets of less than \$25 million

An examination disclosed deterioration in the bank's condition. Rapid expansion of the loan portfolio had a significantly adverse impact on the overall condition of the bank. Out of territory loans represented most of the bank's total capital. The allowance for loan and lease losses was inadequate and there was no supporting documentation of reviews. Loan review was ineffective. Credit and collateral exceptions were high. Policy and guidelines for nonaccrual loans was lacking.

An Agreement required the board of directors to indemnify the bank for violations of 12 U.S.C. §371c; perform a management study; develop a written program to remove criticized assets from that status; certify the reasons for any additional extensions of credit to criticized borrowers; obtain current and satisfactory credit information on all loans; review and revise written lending policy; define the bank's trade area; develop a written policy regarding nonaccrual loans; revise the loan review to identify problem credits; implement a written program to improve collection efforts; review the allowance for loan and lease losses; develop a funds management policy; maintain primary capital at or above a predetermined minimum; restrict dividends; develop a profit plan; restrict transactions with affiliates; and develop a conflict of interest policy, and a consumer compliance program.

245. Bank with assets of less than \$25 million

The examination revealed significant and rapid deterioration in the overall condition of the bank. In particular, the examination disclosed high levels of criticized assets centered in participations purchased from savings and loans; inadequate management; reliance on highly volatile out-of-area deposits; inadequate liquidity; numerous violations of law; and out-of-area lending. These conditions had necessitated the issuance of a Temporary Order to Cease and Desist which addressed participations; liquidity; brokered deposits; and management.

A permanent Order to Cease and Desist required the bank to engage an independent outside management consultant; appoint a new chief executive officer; appoint a new senior lending officer; not allow the former chief executive officer to have any involvement in the day-to-day management of the bank or exert any influence in the bank's lending activities; adopt a conflict of interest policy; correct violations of law; define a trade area; cease accepting brokered deposits; maintain adequate sources of liquidity; revise its

funds management policy; take action to reduce criticized assets; establish a loan review system; review and maintain an adequate allowance for loan and lease losses; adopt and implement a business plan; adhere to its established investment policy; correct internal control deficiencies; adopt and implement a capital plan; restrict payments of dividends; and develop and implement a written consumer compliance program.

246. Bank with assets of \$100 to \$500 million

An examination of the bank revealed that asset quality and management were the primary areas of concern. The deteriorated asset quality reflected loan portfolio management weaknesses. The internal loan review system lacked a formal policy and documentation of its review. Weaknesses were identified in management supervision stemming from inadequate experience and technical banking knowledge. Board reports were inadequate. The bank had not fully addressed asset/liability management concerns identified in a prior examination. Earnings' performance was marginal as a result of deficient asset/liability management practices which had resulted in significant mismatched positions. The external and internal audit lacked comprehensiveness, independence, adequate implementation, follow-up and trained personnel. Several internal control deficiencies were noted.

An Agreement required a study of current management's effectiveness and capabilities as well as the adequacy of board supervision. A written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized was to be devised and followed. The bank agreed to review and revise its written lending policy and to establish a loan review system to periodically review the loan portfolio. The board agreed to ensure that the bank's allowance for loan and lease losses was in conformance with the provisions of Banking Circular 201. It was agreed that the bank would review and revise a written funds management policy. All steps necessary to correct violations of law and regulation were to be taken. An internal audit program appropriate to the needs of the bank was to be developed and the internal control deficiencies corrected. A 3-year capital plan would be developed and capital would not be allowed to fall below a minimum predetermined primary capital to total assets ratio.

247. Bank with assets of \$25 to \$50 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased to an excessive level due to ineffective loan supervision. The allowance for loan and lease losses was inadequate. Management and board su-

pervision were considered extremely weak; loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information; and funds management procedures were unsatisfactory. The level of capital was considered inadequate and earnings were poor. Violations of law were found.

An Order to Cease and Desist required the bank to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; have an independent management study made; hire a new chief executive officer; strengthen collection efforts; develop a written loan policy, a loan review system, an investment policy, a funds management policy, a profit plan, a 3-year capital program, a consumer compliance program, and a conflict of interest policy; correct violations of law; restrict dividends; correct internal control deficiencies; and develop a plan to reduce dependence on borrowed funds.

248. Bank with assets of \$50 to \$100 million

An examination disclosed continued deterioration in the bank's condition. The volume of classified assets had increased. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Management and board supervision were considered inadequate; there was heavy reliance on rate-sensitive deposits; there was noncompliance with portions of an Agreement; there was a downward pressure on earnings; and overhead expenses were increasing.

An Order to Cease and Desist required the board to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses was maintained; increase liquidity; develop profit and capital plans; restrict dividends; correct credit and collateral exceptions; correct any violations of law; have an outside management study performed; and develop a funds management policy.

249. Bank with assets of less than \$25 million

The bank's condition was unsatisfactory due primarily to ineffective control over participations purchased from an affiliated bank. The bulk of the classified credits represented residential real estate in an overbuilt market and non-affiliated bank stock loans. Asset deterioration was due to lax administration and con-

trol. There was limited credit analysis performed, no loan review function, and excessive documentation exceptions. The affiliate was in critical condition, requiring a multimillion dollar capital injection. The existence of overlapping directors/officers at the two banks apparently led to the bank's treatment as a lending extension of the affiliate. Classified assets were excessive.

An Order to Cease and Desist required the bank to appoint or employ a senior lending officer; conduct a management study; refrain from entering into any business relationship unless in compliance with Banking Circular (BC) 115; develop a program for criticized assets and cease making loans to borrowers whose assets are criticized; design a collection program; adopt a nonaccrual loan policy; correct all credit and collateral exceptions; avoid purchasing participations from the affiliate and only if in compliance with BC 181; adopt written procedures to reduce unwarranted concentrations; establish a loan review system; review the written lending policy; review and maintain an adequate allowance for loan and lease losses; implement a strategic plan; develop a 3-year capital program; revise the written funds management policy; correct the violations of law, particularly 12 U.S.C. §84; implement a written consumer compliance program; develop an internal audit and expand the external audit program; and correct the internal control deficiencies.

250. Bank with assets of \$25 to \$50 million

An examination revealed that classified assets had increased to an excessive level. Poor supervision was indicated by numerous documentation exceptions, lack of identifiable repayment sources, and cash flow analyses. The allowance for loan and lease losses was inadequate and required a large special provision. Losses resulted from the loan loss provision and extremely high overhead expenses. Primary capital had declined to an inadequate level. Funds management planning needed improvement. Internal audit was unacceptable and the directors had not reviewed the external audits. The president was overburdened with inexperienced support staff. The bank needed a qualified senior lending officer. Several violations of law were cited including two lending limit violations.

An Agreement required the bank to conduct a management study; appoint or employ a senior lending officer; develop a program for criticized assets and cease making loans to borrowers whose assets are criticized; correct all credit and collateral deficiencies; revise the written lending policy; design a collection program; establish a loan review system; review and maintain an adequate allowance for loan and lease losses; develop a profit plan; achieve adequate pri-

nary capital and develop a 3-year capital program; correct all violations of law; implement a written consumer compliance program; develop an internal audit program; and correct the internal control deficiencies.

251. Bank with assets of \$25 to \$50 million

An examination revealed the overall condition of the bank was unsatisfactory due in large part to inadequate management. Classified assets had increased fourfold since the previous examination, and were heavily concentrated in floor plan loans to used auto dealers. Poor risk selection and credit judgment were evident. Loan administration was weak. Loan documentation exceptions and delinquent loans were excessive. The allowance for loan and lease losses was inadequate and losses for the period were not properly reflected. Refiling of call reports was required. Capital was inadequate. Many violations of laws, rules, and regulation were noted. Management and board supervision were unsatisfactory.

An Agreement required the bank to develop a criticized asset program; review and revise the written lending policy requesting inclusion of specific procedures for floor plan lending; obtain credit and collateral information on all loans; maintain a primary capital/total asset ratio at a predetermined level; obtain OCC approval for dividends; develop a 3-year business plan which included a detailed budget and projections for the bank; revise the asset/liability management policy; revise the investment policy; correct 12 U.S.C. 84 violations and all other violations of law; employ an outside consultant to conduct a management study; develop an internal audit program; correct all internal control deficiencies detailed in the Report of Examination; develop a consumer compliance program; and conform with Banking Circular 115 in payment of holding company management consultant fees.

252. Bank with assets of \$25 to \$50 million

An examination disclosed poor asset quality attributed primarily to the questionable lending practices of the former chief executive officer. Delinquencies were excessive as were nonaccruals and credit exceptions. Additional extensions to previously criticized borrowers had not been reported to the board. Efforts to achieve higher investment income contributed to a substantial rate sensitivity imbalance with an excessive negative gap at each reporting period through the year. Narrowing interest margins depressed earnings in prior years while unexpected other real estate owned and occupancy expenditures, increased nonearning assets and provisions to the allowance for severely impacted net income. Capital had declined

to a point where it was considered strained. A violation of 12 U.S.C. §84 was cited.

An Agreement required the bank to correct the violation of 12 U.S.C. 84. Programs to eliminate the basis of criticisms for each criticized asset were to be established and the loan review system improved. Renewals or extensions of loans were required to comply with the bank's loan policy. Credit information and collateral exceptions were to be corrected. Written programs to strengthen collection efforts and improve the accuracy of the internal management information system were required. A profit plan to improve and sustain earnings was to be developed. Capital was to be maintained at a minimum predetermined level of total assets and the allowance for loan and lease losses and the bank's 3-year capital plan were to be revised. The District Administrator was to be notified prior to all dividend declarations.

253. Bank with assets of \$25 to \$50 million

An examination revealed that the overall condition of the bank had deteriorated. The poor condition of the bank was the result of inadequate board and senior management supervision. Particularly significant was the lack of effective policies; internal controls; auditing practices; management information systems; and internal controls. The board and management failed to adhere to prudent lending practices which has led to a deteriorating trend in the bank's loan portfolio. In addition, the poor loan quality coupled with the lack of a capable senior loan officer has contributed to the bank's poor asset quality.

An Agreement required the board to appoint a qualified senior loan officer; establish and implement a loan administration policy; develop a plan to remove each criticized asset from that status; obtain current credit information and correct collateral exceptions, perfecting collateral where necessary; maintain an adequate allowance for loan and lease losses; charge off all interest on loans which accrued contrary to the Call Report Instructions and develop and implement a policy for auditing accrued interest on loans; develop and implement a funds management policy; develop and implement an audit program for the bank; and develop and implement a consumer compliance program.

254. Bank with assets of \$25 to \$50 million

The examination indicated that the overall condition of the bank was deteriorating. The bank's high volume of classified assets, poor earnings, weak internal controls, operational deficiencies and numerous violations of law were indicative of inadequate board and management supervision. In addition, the examination

revealed that the deterioration of the bank's asset quality was the result of overlending, lending without appropriate collateral and financial support, and liberal lending practices.

An Agreement required the bank to correct violations of law and implement appropriate policies to prevent future violations; employ an independent outside management consultant; eliminate criticized assets; implement a loan administration policy; obtain current credit information and correct collateral exceptions, perfecting collateral where necessary; establish a loan review system; maintain an adequate level of allowance for loan and lease losses; develop and implement a conflict of interest policy; and develop and implement an audit program and correct internal control deficiencies.

255. Bank with assets of \$25 to \$50 million

The examination revealed insider transactions involving violations of 12 U.S.C. §84 and other violations of law. Management of the bank was weak and a significant amount of the bank's assets were criticized. The bank's lending policy was insufficient and the bank had no loan review system. The allowance for loan and lease losses was not being reviewed for adequacy in a satisfactory manner, current and satisfactory credit information had not been obtained for many loans and collection efforts needed strengthening. Undue concentrations of credit were a problem and the bank needed a funds management policy. The bank had no business plan and the investment policy needed revision. The bank also lacked a written audit program and a consumer compliance program.

An Order to Cease and Desist required the bank to immediately correct all violations of 12 U.S.C. §84 and other violations of law and establish procedures to prevent their recurrence. A program was required to address the problem underlying the bank's criticized assets and a new loan review system and revised lending policy were to be adopted. Periodic reviews of the allowance for loan and lease losses were to be undertaken using established factors to analyze risks in the loan portfolio. Current and satisfactory credit information was to be obtained in each case where it was lacking and a nonaccrual loan policy was to be developed. Collection efforts were to be strengthened and undue concentrations of loans eliminated. A funds management policy was required and a business plan for the future. The bank was also required to adopt a written audit program and obtain a CPA audit. A consumer compliance program was called for.

256. Bank with assets of \$25 to \$50 million

An examination of the bank disclosed ineffective supervision and administration by the board of directors

and management had resulted in a deterioration of asset quality, an inadequate allowance for loan losses, negative earnings, a marginal capital base and several violations of law. Rapid growth in the indirect consumer paper portfolio was the primary cause of asset problems and increased loan losses. Earnings suffered from loan losses and high non-interest expense, which included inordinately high director and officer discretionary expenses.

An Agreement was entered into which required the bank to correct all violations of law; have an independent review and analysis of management performed; adopt and adhere to a conflict of interest policy; revise lending policies and procedures specifically regarding administration, loan review, credit information, collections and concentrations; adopt programs for the elimination of criticized assets; prepare a profit plan and a long range strategic plan; adopt procedures to reduce, approve, and monitor discretionary director/officer expenses; develop a viable plan to maintain an adequate capital base; and review the allowance for loan and lease losses periodically.

257. Bank with assets of \$50 to \$100 million

Large scale, uncontrolled investment trading activities, which were not properly supervised and accounted for on the bank's books, represented an unwarranted risk to the bank's solvency. Liberal lending practices were in evidence with several loans booked without identified sources of repayment and/or well defined repayment programs. This caused deterioration in asset quality, increased loan losses and declining earnings performance. Asset deterioration was marked by moderately high past-due loan levels, an inordinate amount of loans not supported by satisfactory credit information, increased volume and severity of asset classifications and continued large loan losses. Earnings performance has been adversely impacted by provisions required to replenish the allowance for loan and lease losses, resulting from increased levels of nonearning assets. Weak supervision by the board and executive management was considered the primary reason for the bank's problems. Lack of adequate supervision was evidenced by inadequate investment and loan administration; non-adherence to bank policy; inadequate management reporting systems; and the lack of a formalized forward planning and budgeting process.

An Agreement required the bank to perform an evaluation of present management, including a board succession plan; review and revise lending policies (including nonaccrual guidelines); discontinue investment trading activities without proper policy and accounting control; eliminate the grounds of criticism of

each asset and cease making loans to criticized borrowers without board certification; adopt and implement a program to control delinquency and improve recovery levels; maintain an adequate allowance for loan and lease losses; correct all credit and collateral exceptions; obtain and analyze current and satisfactory credit information prior to extending credit in any form; establish an adequate internal loan review system; correct violations of law and strengthen internal audit program. In addition, the bank must develop and implement an earnings and budget plan and capital program to ensure that primary capital is maintained and develop a written funds management policy.

258. Bank with assets of less than \$25 million

Poor lending practices, including inadequate loan documentation, and lax collection efforts resulted in serious decline in asset quality and heavy loan losses. Board supervision, written policy guidelines, and management reporting systems were weak. The bank's poor earnings record could not support the loan losses and the bank's capital was inadequate.

An Agreement required the bank to obtain services of a management consultant to review management capabilities and establish a more appropriate management structure as well as improve administrative procedures; revise the lending policy; adopt specific collection plans for problem loans; and improve documentation and collection procedures. A loan review system was to be established. Primary capital was to be maintained at least at a minimum predetermined level and a business plan was to be developed. Violations of law were to be remedied and electronic data processing and audit deficiencies corrected. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level.

259. Bank with assets of less than \$25 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased to an excessive level due to ineffective loan supervision. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Board supervision was considered extremely weak; loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information; and funds management procedures were unsatisfactory. Violations of law were found.

An Agreement required the board to develop a written program to remove each criticized asset from that status, certify the reasons for additional extensions of

credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; strengthen collection efforts; develop a written agricultural loan policy, a loan review system, an investment policy, a funds management policy, a profit plan, and a 3-year capital program; arrange for an independent CPA audit; correct violations of law; make loan participations only in accordance with BC 181; and develop a plan to reduce dependence on borrowed funds.

260. Bank with assets of less than \$25 million

A recent examination revealed a deteriorated condition. The level of classified assets had risen to an unacceptable level and was the direct result of inadequate board supervision and management's failure to adhere to prudent lending practices. Reviews of the allowance for loan and lease losses by the board were inadequate. Earnings are poor and were negatively affected by the lack of formal funds management practices or budgets. Rapid asset growth has strained capital. Violations of law including lending limit violations were cited.

An Agreement required an analysis and review of management by an outside management consultant; a written program addressing criticized assets; an internal loan review system; periodic review of the allowance for loan and lease losses; a profit plan; maintenance of primary capital at or above a predetermined minimum level; an internal audit program; and the correction of all violations of law including the 12 U.S.C. §84 violations and internal control deficiencies.

261. Bank with assets of \$25 to \$50 million

An examination revealed that the deterioration of asset quality was attributable to weaknesses in loan administration. Failure to internally identify problem loans and management disagreement on classifications was evident. The volume of financial exceptions was excessive. Earnings were at a substantial deficit. A narrowing of interest margins combined with high overhead expenses were also inhibiting profitability. Capital was inadequate. Deficiencies were cited in regard to funds management practices, particularly in monitoring liquidity and rate sensitivity positions. Procedures for reviewing and maintaining an adequate loan loss reserve needed to be strengthened. Asset liquidity was strained. Violations of banking law and regulation were cited.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank was to refrain from

extending additional credit to borrowers whose loans had been criticized unless failure to extend such credit was shown to be substantially detrimental to the bank. Immediate steps to obtain financial information as well as collateral documentation were to be taken. The bank was not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The written lending policy was to be reviewed and revised and a policy covering real estate construction lending adopted. The internal loan review system was to be strengthened. The bank agreed to assess the adequacy of the bank's allowance for loan and lease losses, remedy deficiencies in the quarter of discovery, and to establish a program for the maintenance of an adequate allowance. A capital program was required and capital was not to fall below a predetermined minimum level. Dividends were restricted. The bank's asset/liability policy was to be revised, violations of law corrected, and internal control deficiencies addressed.

262. Bank with assets of \$25 to \$50 million

A recent examination revealed excessive classified assets, an inadequate allowance for loan and lease losses, and numerous violations of law and regulation. Internal audit was inadequate and trust department administration was weak. Weaknesses were caused by deficient policies and procedures, inadequate management information systems, poor control and audit systems, and an unsatisfactory level of supervision by the board and executive management. Compliance with consumer laws was inadequate.

A Memorandum of Understanding addressed criticized assets, loan review, the allowance for loan and lease losses, the lending policy, violation of law including consumer compliance laws, trust department administration, internal audit and funds management.

263. Bank with assets of \$50 to \$100 million

An examination of the bank revealed that classified assets had increased substantially, and numerous supervisory weaknesses were evident. The lack of an adequate problem loan list, workout strategies, financial information and a nonaccrual policy had contributed to poor analysis, non-identification and improper structure of a majority of the bank's problem assets. The bank's allowance for loan and lease losses was entirely depleted by losses identified during the examination. Earnings were considered unsatisfactory. No profit planning systems were utilized by management. Capital was strained in light of the unsound condition of the loan portfolio. Board supervision was weak. The bank's funds management procedures were largely informal and needed to be upgraded. The bank's

liquidity position was strained and management of the investment portfolio was considered unsatisfactory. Several violations of law and regulation were noted.

An Agreement required the bank to develop and implement a written plan to correct supervisory weaknesses and a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized was to be adopted. Adequate documentation with respect to all outstanding loans was to be obtained and credit would not be granted without obtaining and analyzing current and satisfactory credit information. Written policies and procedures concerning the supervision and control of nonaccrual loans were required as was a loan review system. The allowance for loan and lease losses was to be reviewed periodically. The bank agreed to develop a 3-year profit plan, a 3-year capital plan and agreed capital would not be allowed to fall below a minimum ratio to total assets. A funds management policy and a program to manage the bank's investment portfolio was called for as was a program to improve and strengthen the bank's internal audit function. Violations of law and regulation were to be corrected.

264. Bank with assets of \$50 to \$100 million

Poor loan quality resulted from optimistic expectations and poor assessment of credit qualifications of borrowers. Energy and real estate construction loans comprised the majority of classifications. The loan review function was inadequate. The allowance for loan and lease losses was deficient and the required provision eliminated profits. Primary capital had been reduced significantly. Holding company fees were not documented to justify cost or identify services rendered. The bank did not have a conflict of interest policy. The chief executive officer had resigned during the examination.

An Agreement required the bank to conduct a management study; develop a program for criticized assets and cease making loans to borrowers with criticized assets; correct all credit and collateral deficiencies; design a collection program; revise the written lending policy; improve the internal loan review system; adopt written procedures to reduce unwarranted concentrations; review and maintain an adequate allowance for loan and lease losses; develop a comprehensive conflict of interest policy; develop a 3-year capital program; revise the investment and funds management policies; and correct all violations of law.

265. Bank with assets of less than \$25 million

Supervisory concerns include adverse trends in asset quality and generally deficient supervision by the

board and executive management. The rapid asset and loan growth the new bank experienced in 1984 was funded by volatile liabilities. Liquidity was weak and virtually no liquid assets existed. Policies, information systems and control and audit systems were deficient. Numerous violations were identified, including 12 U.S.C. 84 and reimbursable violations of Regulation Z. A consumer compliance policy was lacking. Earnings were weak as a result of high allowance for loan and lease loss provision expenses in the two preceding years. The bank's president resigned after committing a defalcation against the bank.

An Agreement required the bank to perform an in-depth management study; improve lending policies and procedures; and reduce the bank's dependence on brokered deposits. Violations of law were to be corrected, including the violations of Regulation Z, and policies and procedures implemented to prevent future violations. Policies and procedures were required for maintenance of the allowance for loan and lease losses, funds management, and strategic planning. A consumer compliance policy was to be devised and implemented, as was an audit program.

266. Bank with assets of \$50 to \$100 million

An examination of the bank revealed deterioration in asset quality. Assets classified substandard indicated problems centered in collateral-dependent loans. Evidence of sufficient cash flow to properly service debt requirements was lacking. Management's philosophy of asset-based lending was the primary contributor to the bank's problems. Additionally, the bank had a high level of past due loans and loan documentation exceptions. The allowance for loan and lease losses was determined to be inadequate in view of the condition of the loan portfolio and the bank's loss history. Policies needed strengthening in the areas of lending, investments, internal audit, and funds management practices. Several violations of law were cited.

A Memorandum of Understanding required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank's written lending policy was to be revised and credit would not be granted without obtaining and analyzing current and satisfactory credit information. A loan review system was to be developed to periodically review the bank's loan portfolio to identify and categorize problem credits. The adequacy of the bank's allowance for loan and lease losses was to be addressed periodically. All steps necessary to correct violations of law and regulation were to be taken.

267. Bank with assets of \$50 to \$100 million

An examination of the bank revealed continued deterioration from the prior examination. There was a significant increase in loan classifications including loan losses. The increase in loan classifications was attributed to lax loan administration and supervision. Collateral and credit documentation exceptions were extremely high. Loan files were disorganized and lacked officer comments. Increased provisions to the allowance for loan and lease losses were required which adversely affected earnings. The bank had no formal, independent loan review program. The bank lacked a definitive policy and procedure for reviewing the adequacy of the allowance for loan and lease losses. Several violations of law and regulation, and policy and procedural deficiencies were found throughout bank operations. The bank lacked a written funds management policy. Several internal control deficiencies were noted.

An Agreement required a study of current management's effectiveness and capabilities as well as the adequacy of board supervision. Based upon this study, the board agreed to implement corrective action. The board agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. Immediate steps to obtain financial information as well as collateral documentation would be taken for all loans. The bank would not extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The bank's written lending policy would be revised and a loan review system established. The adequacy of the bank's allowance for loan and lease losses would be assessed periodically. A program to improve and strengthen the bank's internal audit function and correct the internal control deficiencies would be developed and implemented. Violations of law and regulation would be corrected and procedures implemented to ensure that further violations do not occur.

268. Bank with assets of less than \$25 million

An examination of the bank disclosed an increase in overall criticized assets. Loan losses remained high from the previous examination. The criticized loans contained material deficiencies and purchase of high risk issues gave rise to potential future concerns over underwriting standards. Financial statement exceptions were excessive. A change in ownership and high turnover in key positions created a lack of continuity and depth of management. The payment of fees for financial services was not adequately documented. In addition, the bank did not have a formal credit review function. The financial management decisions pro-

vided for minimal liquidity and placed the bank in a liability sensitive posture

An Agreement required the bank to study current management's effectiveness and capabilities as well as the adequacy of board supervision. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. All credit information deficiencies were to be corrected. Credit was not to be extended without first obtaining and analyzing current and satisfactory credit information. A loan review system was to be established. The adequacy of the bank's allowance for loan and lease losses would be assessed periodically with deficiencies remedied in the quarter of discovery. A 3-year capital plan was required. Capital was not to fall below a fixed ratio to total assets. Dividends were restricted. The bank's liquidity was to be reviewed on a monthly basis and appropriate action taken to ensure adequate sources of liquidity in relation to the bank's needs. The bank agreed it would not pay management, service or any other fees unless it is documented in bank files that the payment of such fees was consistent with the parameters of Banking Circular 115. The bank agreed to correct the internal control deficiencies cited in the Report of Examination.

269. Bank with assets of less than \$25 million

An examination of the bank revealed the asset condition had deteriorated substantially and was considered unsatisfactory. High levels of classified assets, delinquent loans, and nonaccrual loans were also of concern. Poor loan administration and collection practices intensified the difficulties. The bank needed a knowledgeable officer to supervise its lending activities in order to establish effective procedures and institute corrective action necessary to return the portfolio to a satisfactory condition. Bank earnings had been declining for the past three years, primarily due to loan losses. A number of operational and internal control deficiencies were noted during the examination. These deficiencies were also cited by the outside audit staff. Primary capital was threatened by the present and potential volume of problem loans.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. A written program to improve the bank's loan administration was to be developed. The bank agreed to implement a written program designed to improve and strengthen collection efforts and to take steps necessary to correct violations of law and regulation, and to implement procedures to ensure that further violations do not

occur. A study of current management's effectiveness and capabilities as well as the adequacy of board supervision was to be conducted. Based upon this study, the board agreed to implement corrective action. The bank agreed to formulate a program designed to improve and sustain earnings. Dividends were restricted unless such dividends were in compliance with law, in the best interest of the bank, consistent with the bank's capital plan and prior written approval had been received from the OCC. The bank agreed to correct the internal control deficiencies and that the bank's CPA firm would perform an audit of the electronic data processing department to express an opinion of the condition of the department.

270. Bank with assets of \$100 to \$500 million

The report of examination identified the following problems and deficiencies in the bank's operation: inadequate management and board supervision; an inadequate loan review system; insufficient earnings and capital; an inadequate liquidity level; an excessive volume of past-due loans; electronic data processing weaknesses; failure to value U.S. Government zero-coupon bonds at market value; failure to obtain up-to-date appraisals on real estate representing collateral loans; and failure to implement a consumer compliance program.

The bank's board of directors stipulated to the issuance of an amended Order to Cease and Desist which required employment of an independent management consultant; establishment of a loan review system; maintenance of adequate capital and development of a new capital plan; maintenance of adequate liquidity; no further acceptance of brokered deposits; implementation of a program to strengthen collection efforts; payment of dividends in accordance with law and only with prior written approval of the Deputy Comptroller; adoption of strategic plan; actions to correct EDP weaknesses; the valuation of U.S. Government zero-coupon bonds at market value; hiring an appraiser to perform up-to-date appraisals of real estate held as loan collateral; and implementation of consumer compliance program.

271. Bank with assets of \$25 to \$50 million

An examination of the bank revealed excessive levels of classified assets, high past-due and nonaccrual loans, and large amounts of charge-offs. The deterioration was primarily attributed to prior management's poor decisions. Weaknesses were identified in the loan review system, the ability to maintain an adequate allowance for loan and lease losses, and the ability to recognize losses in a timely fashion. These weaknesses indicated a deficiency in the ability of the board and management to properly assess the bank's

problems. Deterioration in the asset quality had negatively impacted earnings and capital. The necessity for large provisions to the allowance for loan and lease losses had resulted in poor earnings performance. Capital was considered strained in light of the poor asset quality and the inability of the bank to generate adequate earnings.

An Agreement required the bank to adopt a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The adequacy of the bank's allowance for loan and lease losses was to be assessed periodically. The bank was to review and strengthen its internal loan review system. A capital plan was called for requiring the bank's capital to be maintained at or above a fixed level.

272. Bank with assets of less than \$25 million

An examination of the bank revealed it to be in unsatisfactory condition. Asset quality, especially in the loan portfolio, was unacceptable. The levels of classified loans, and financial statement and collateral exceptions were excessive. Supervision and control over the loan portfolio had been virtually nonexistent. There had been little or no adherence to approved loan policy guidelines. The credit file condition was unsatisfactory, the few credit memoranda were inadequately prepared, and little or no credit analysis had been performed. The allowance for loan and lease losses was considered marginally adequate, and the policy and procedures used in determining the loss reserve were unsatisfactory. Management and administration by the directorate and senior management over the bank's affairs was inadequate. Corporate planning and financial projections were not evident. The bank's earning performance was unsatisfactory. Earnings had been adversely affected by large provisions to the loss reserve and narrow interest margins and spreads. A violation of the Bank Secrecy Act was also cited.

An Agreement required the bank to appoint or employ a capable person to serve as a senior lending officer, responsible for the supervision and administration of the bank's lending function. The bank's management needs were to be analyzed. The bank agreed to review and revise the written lending policy and to develop and implement a written program to improve the bank's loan administration. The bank agreed to adopt and implement a written program designed to collect, strengthen, or otherwise eliminate the grounds of criticism for all assets criticized. All steps necessary to obtain current and satisfactory credit information would be taken and each collateral exception would be corrected. The bank agreed that it would not grant

credit without obtaining and analyzing current and satisfactory credit information and properly perfecting collateral, where applicable. It also agreed to establish a loan review system to periodically review the bank's loan portfolio to identify and categorize problem credits. The adequacy of the bank's allowance for loan and lease losses would be addressed periodically. The bank agreed to develop a profit plan designed to improve and sustain bank earnings and develop a 3-year capital plan. The bank agreed that capital would not be allowed to fall below a minimum ratio of primary capital to total assets ratio. All violations of law were to be corrected.

273. Bank with assets of \$50 to \$100 million

An examination of the bank disclosed unsatisfactory asset quality. Deficient supervision by the board, management, and the holding company was also evident. The level of loan staff was inadequate, as were collection efforts. The levels of collateral and financial statement exceptions were excessive and the allowance for loan and lease losses was inadequate. Internal loan review needed strengthening. The quality of the loan portfolio had deteriorated and its unsatisfactory condition remained a supervisory concern. Earnings had declined dramatically. A significant increase was noted in loans identified as loss. Past-due and nonaccrual loans remained high and needed to be closely monitored. The high volume of nonearning assets and the decreasing net increase margin also contributed to the decline in earnings. There were two cases of noncompliance with a Memorandum of Understanding under which the bank had been operating.

An Agreement required a study of current management's effectiveness and capabilities as well as the adequacy of board supervision. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to take immediate steps to obtain financial information as well as collateral documentation and that it would not grant credit without obtaining and analyzing current and satisfactory credit information and properly perfecting collateral, where applicable. The internal loan review system was to be strengthened. The bank agreed to assess the adequacy of the bank's allowance for loan and lease losses, remedy deficiencies in the quarter of discovery, and to establish a program for the maintenance of an adequate allowance. The bank agreed to implement a written program designed to improve and strengthen collection efforts.

274. Bank with assets of \$25 to \$50 million

The bank's overall condition was unacceptable. Criticized assets, centered in the loan portfolio, were

excessive as were documentation exceptions. Management's problem loan identification system identified the majority of the problem credits, however, the severity of problems was often understated. Reviews of the allowance for loan and lease losses by management were inadequate, and an additional provision expense was required to restore adequacy. Earnings had historically been low, and were now affected by the decline in asset quality. Earnings retention was low due to the payment of large dividends to service holding company debt. Numerous violations of law and internal control deficiencies were noted. The major cause of the decline in the bank's condition was the result of the lack of management depth and turnover of personnel in the lending department. Supervision by the board and management was lax. Many areas lacked established policies. Policies in other areas required revision. In addition, fees paid to insiders appeared to be in contravention of Banking Circular 115.

An Agreement required a revised loan review system; addressing criticized asset problems; periodic reviews of allowance for loan and lease losses; a funds management policy; correction of all violations of law; adherence to BC 115 in the payment of fees to insiders; a capital plan providing for the maintenance of primary capital at or above a predetermined minimum level; an analysis and review of management; obtaining current and satisfactory credit information for all loans and correcting collateral exceptions; and a profit plan.

275. Bank with assets of less than \$25 million

A report indicated that criticized assets, past due loans, nonaccruals, and documentation exceptions were excessive. Loan losses were high which resulted in substantial operating losses and reduced capital support to an inadequate level. Numerous violations of law and internal control deficiencies were noted. The primary reason for the decline in the condition of the bank was management's failure to adhere to established bank policies and prudent lending practices. Supervision by the board over management had been lax, and many areas lacked established policies while policies in other areas required revisions.

An Order to Cease and Desist required a review by an independent management consultant; a program addressing the excessive criticized assets; the appointment of a new senior lending officer; proper collateral documentation; collection and loan policies; periodic reviews of the allowance for loan and lease losses; maintenance of capital at or above a predetermined minimum level; correction of violations of law; a profit plan; current credit information on all loans; an

internal audit program; and correction of the internal control deficiencies.

276. Bank with assets of \$50 to \$100 million

An examination disclosed that the bank's liquidity was a serious concern because the investment portfolio was pledged to secure public deposits. The significant deterioration in asset quality was attributed to weak supervision and inadequate analysis. High percentages of the loan portfolio lacked adequate financial information and collateral documentation. Loan portfolio supervision was weak. Earnings bank had historically been low. Internal control exceptions required prompt corrective action. Violations of law were also cited.

A Memorandum of Understanding required the bank to review liquidity on a monthly basis and take appropriate action to ensure adequate sources of liquidity were available. The bank agreed to adopt and implement a plan to eliminate its reliance on brokered deposits by developing alternative funding sources. The bank was to review and revise its written funds management policy and the investment policy. A 3-year capital plan would require that capital be maintained at or above a minimum ratio of primary capital to total assets. The bank also agreed to adopt and implement a written program for all criticized assets. Adequate documentation for all outstanding loans was to be obtained. The bank was to correct all collateral exceptions and agreed to refrain from extending secured credit without obtaining, analyzing, and perfecting collateral documentation on loans supported by collateral. The bank agreed to assess the adequacy of the bank's allowance for loan and lease losses, remedy deficiencies in the quarter of discovery, and establish a program for the maintenance of an adequate allowance. The bank agreed to review and revise its written lending policy. The board agreed to take steps necessary to correct violations of law and regulation, and to implement procedures to ensure that further violations do not occur.

277. Bank with assets of \$25 to \$50 million

An examination revealed that the bank's overall condition was unsatisfactory. Criticized assets were high as were documentation exceptions. Management's internal loan review was ineffective and resulted in an inadequate allowance for loan and lease losses. Earnings were poor due to high provisions to the allowance and capital was strained by the level of criticized assets. Numerous violations of law and internal control deficiencies were noted. The major cause of the decline in the bank's condition was the result of an inadequate lending staff and failure to adhere to established policies. Supervision by the board and

management was lax, and many areas were without established policies, or revisions were necessary.

An Agreement required an analysis and review of management; a program addressing the excessive criticized assets; current and satisfactory credit information for all loans in addition to collateral documentation, a revised lending policy; an internal loan review system; periodic reviews of the allowance for loan and lease losses; correction of violations of law and internal control deficiencies; a profit plan; a capital plan; and an internal audit program.

278. Bank with assets of less than \$25 million

An examination of the bank revealed weaknesses in supervision by management and the board of directors and deterioration in asset quality, liquidity, earnings, and capital. The major causes were management's collateral based lending practices. The bank had purchased participations from affiliate banks without first obtaining credit information or performing financial analysis. Credit administration was weak in all areas, and financial statement exceptions and collateral exception were excessive. The allowance for loan and lease losses was inadequate. Earnings had decreased because of the loan losses, nonaccruals and high overhead expenses. Capital declined after charge-offs and was considered strained. Liquidity was a concern. Management in the bank also needed to be improved. Violations of law were disclosed.

An Agreement required a compliance committee composed of outside directors to undertake a management study and to implement corrective action. The bank agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The adequacy of the bank's allowance for loan and lease losses would be assessed on a quarterly basis. The bank further agreed to take all steps necessary to obtain current and satisfactory credit information as well as correct each collateral exception and agreed to refrain from extending secured credit without obtaining, analyzing and perfecting collateral documentation on loans supported by collateral. The bank was not to purchase any asset without complying with the provisions of Banking Circular 181. A loan review system was called for. The lending policy would be revised and liquidity reviewed on a monthly basis. Adequate sources of liquidity would be developed. Capital would not be allowed to fall below a minimum level. Violations of law and regulation would be corrected and procedures implemented to ensure that further violations do not occur.

279. Bank with assets of less than \$25 million

An examination revealed that significant asset deterioration and poor earnings were the major problems confronting this institution. Classified assets had increased significantly, primarily because of poor loan supervision and administration. Loan losses, loan loss provisions, and securities trading losses had severely impacted earnings and negatively impacted capital. Violations of law were cited, including violations of 12 U.S.C. §375b. Satisfactory credit information was lacking on several loans, excessive collateral exceptions were cited, and the allowance for loan and lease losses was not reviewed periodically. A funds management policy and an investment and trading policy were needed. Capital was marginal and a consumer compliance program was needed.

An Agreement required the bank to correct each violation of law; implement written plans to eliminate the bases of criticism for identified problem assets; restrict lending to criticized borrowers; implement a written conflict of interest policy; review and document the adequacy of the allowance for loan and lease losses at least quarterly; develop and implement a written funds management policy; perform a written profitability study of the bank's securities trading activity; adopt and implement a written trading policy; ensure that investment securities discounts are accreted and premiums amortized at least monthly; develop a 3-year capital program to maintain primary capital at or above a predetermined ratio to total assets; restrict dividends; and develop and implement a written consumer compliance program.

280. Bank with assets of less than \$25 million

An examination revealed significant asset deterioration and poor earnings. Classified assets had increased significantly and were attributed to substantial loan growth without an increase in lending staff and poor loan supervision and administration. Realized loan losses and loan loss provisions had severely impacted earnings and negatively impacted capital. Violations of law were cited including a violation of 12 U.S.C. §84 which involved a loss. Credit information was often inadequate and collateral not perfected. Inaccurate Call Reports had been filed. A funds management policy and a budget were needed.

An Agreement required the bank to correct each violation of law; have the directors indemnify the bank for losses incurred on a loan in violation of the bank's lending limit; implement written plans to eliminate the bases of criticism for identified problem assets; restrict lending to criticized borrowers; obtain current and satisfactory credit and collateral information; revise the bank's written loan policy, including loan

renewals, treatment of nonaccrual loans, and collection efforts; establish and implement a problem loan identification and review system; review and document the adequacy of the allowance for loan and lease losses at least quarterly; refile and republish amended Reports of Condition and Income; establish policies and procedures to ensure accurate future reporting; develop a written funds management policy; develop a 3-year capital program; prepare an annual budget and submit calendar quarter comparisons of actual performance to budget; and refrain from dividend declaration or payment except when in conformance with law and when prior written notification has been made.

281. Bank with assets of less than \$25 million

An examination revealed the bank to be in extreme financial difficulty and in need of an immediate infusion of capital. New owners were operating under an earlier Order to Cease and Desist. The day before the OCC obtained judicial enforcement of that Order, including its capital requirements, substantial additional capital was put into the bank. The old Order needed to be updated to address current problems noted in the examination including inadequate management, excessive criticized assets, current and satisfactory credit information lacking on many loans, weak collection efforts, and a lack of a loan review system. Violations of law were cited including violations of 12 U.S.C. §84 which could require director reimbursement for losses. Despite the injection of capital, capital was less than adequate. The allowance for loan and lease losses needed periodic review. Earnings were weak and liquidity was marginal. The written funds management policy was not being complied with. Electronic data processing (EDP) deficiencies were cited. An internal audit program was lacking and an audit of the bank by an independent auditor was needed. Several internal control deficiencies were noted. The bank needed to develop a consumer compliance program to insure compliance with all consumer protection laws and regulations.

A new Order to Cease and Desist required the bank to review its management; develop a program addressing the criticized assets; obtain current and satisfactory credit information for all loans; improve collection efforts; and develop a loan review system and determine the potential for reimbursement in the violations of 12 U.S.C. §84. Capital was to be increased to achieve a predetermined level of equity capital. The allowance for loan and lease losses was to be reviewed periodically, liquidity closely monitored with a plan for obtaining additional sources of liquidity if needed, and an earnings plan derived. Compliance with the bank's funds management plan was ordered.

EDP deficiencies were to be corrected and an internal audit program developed. Consumer compliance deficiencies were to be corrected and a consumer compliance program developed and followed.

282. Bank with assets of \$50 to \$100 million

An examination revealed deterioration in overall condition resulting from lack of management succession and ineffective leadership. Asset quality was poor as evidenced by increased classifications and nonaccruals, and continued high past dues. An internal loan review function was lacking. A large volume of out-of-territory participations which declined subsequent to purchase contributed substantially to asset quality problems. Net losses were reported, the allowance for loan and lease losses was inadequate, funds management was ineffective, and capital was marginal.

An Agreement required the bank to conduct a management study; develop a program addressing the criticized assets; revise the loan review system; obtain current credit information for all loans and perfect collateral; review the allowance for loan and lease losses periodically; adopt a funds management policy and a capital plan; correct all violations of law and regulations; develop earnings and budget plans and future business plans; and develop a consumer compliance program. Correction of internal control deficiencies was required.

283. Bank with assets of \$25 to \$50 million

An examination revealed that deficiencies in loan supervision had resulted in significant asset quality deterioration. Credit information was lacking in many instances. The allowance for loan and lease losses was inadequate and had not been constantly reviewed. An internal loan review system was needed and the policy on nonaccrual loans needed strengthening.

An Agreement required the bank to adopt a program addressing the excessive criticized assets; obtain satisfactory credit information on all loans; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop an internal loan review system; and strengthen the policy on non-accrual loans.

284. Bank with assets of \$50 to \$100 million

An examination disclosed an excessive level of criticized assets which was caused by loan supervision and staffing inadequacies. Current credit information was lacking on several loans. The bank's internal loan review system needed strengthening as did its loan policy. The allowance for loan and lease losses was

inadequate. A funds management program was needed as was an internal audit program.

An Agreement required the bank to develop and implement a program addressing criticized assets and to obtain current and satisfactory credit information on all loans. The bank's internal loan review system was to be strengthened and the allowance for loan and lease losses reviewed periodically and maintained at an adequate level. Dividends were restricted. A funds management program was to be developed as was an internal audit program.

285. Bank with assets of less than \$25 million

Although the overall condition of the bank was satisfactory, there were concerns relating to potential insider abuse on the part of the principal shareholder who was experiencing severe financial problems. Abuse of other related banks had already occurred.

An Order to Cease and Desist required that no new extensions of credit be made to the principal shareholder or related interests; management fees receive OCC approval prior to payment; 30-days prior notice be given to the District Administrator prior to payment of dividends and of board or management changes; and the conflict of interest policy revised and strengthened.

286. Bank with assets of less than \$25 million

Classified assets were excessive. Delinquencies had increased. The purchase of poor quality loan participations contributed to the bank's asset problems. Compliance with a formal agreement was unsatisfactory. Losses recognized during the examination reduced capital to an inadequate level. Earnings were poor due to heavy provisions to the allowance for loan and lease losses and narrowing interest margins.

An Order to Cease and Desist required the bank to appoint a compliance committee; maintain equity capital and implement a capital plan; restrict payment of dividends; reduce criticized assets; obtain current and satisfactory credit information; conform to the requirements of Banking Circular 181; establish a loan review system; implement a lending policy; review and maintain an adequate allowance for loan and lease losses; improve collection efforts; revise the funds management policy; develop a profit plan; correct all violations of law; and cease accepting brokered deposits.

287. Bank with assets of \$25 to \$50 million

An examination revealed that the bank needed a full-time chief executive officer and needed to review

the duties and responsibilities of other officers. Capital was inadequate and the bank had no budget process. The allowance for loan and lease losses needed periodic reviews and written policies governing charge-offs and the recognition of losses were lacking. Collection efforts were weak. Criticized assets were excessive. The bank's written lending policy needed revision to specifically address loans secured by farm land. Liquidity was marginal and the bank's investment policy was out of date. Violations of law were cited.

An Agreement required the bank to employ a full-time chief executive officer and review the officer positions and organization. Primary capital was required to be maintained at a predetermined level in relation to assets, and dividends were restricted. Budgets were to be developed for the present and future and written policies and procedures implemented governing charge-offs and recognition of losses. Collection efforts were to be strengthened and a program addressing criticized assets adopted and followed. The bank's lending policy was to be revised and funds management and liquidity carefully monitored. The investment policy was to be reviewed and revised and violations of law corrected. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level.

288. Bank with assets of \$50 to \$100 million

An examination revealed excessive classified assets, insufficient credit documentation, inadequate staffing, and a deposit base supported by large certificates of deposits. The bank was also experiencing uncontrolled growth. Funds management practices were poor and there was no internal audit. Several violations of laws were cited, including violations of the bank's lending limit, insider violations, and violations of the Bank Secrecy Act. Liquidity was marginal, the allowance for loan and lease losses inadequate, a consumer compliance program was needed. An internal audit program was also needed.

An Order to Cease and Desist required the development or revision of policies for all major areas of the bank; reports on criticized assets; appointment of a senior lending officer; an independent study of management; improvement of the loan administration function; development of an internal loan review system; a quarterly review of the adequacy of the allowance for loan and lease losses; correction of all violations of law; a 3-year capital plan; a yearly profit plan; review of the chairman of the board's compensation; review of loan fees; monthly review of liquidity; an independent internal audit, and a consumer compliance program.

289. Bank with assets of more than \$1 billion

Subject bank, in satisfaction of a Department of Justice imposed condition of a pending merger, sold offices to a federally insured savings and loan. This action was taken without prior approval of the FDIC, as required by the Bank Merger Act. The merger was then consummated. Had an application initially been filed with the FDIC, approval would have been questionable because the savings and loan's low tangible net worth failed to satisfy FDIC policy applicable to these transactions.

An Order to Cease and Desist required the bank to obtain FDIC consent prior to the transfer of assets to any institution insured by the FSLIC in consideration of the assumption of liabilities for any portion of the deposits made in the bank. In view of the current condition of the savings and loan association, and with the cooperation of the bank, *nunc pro tunc* approval was obtained.

290. Bank with assets of less than \$25 million

An examination identified the following problems and deficiencies in the bank's condition: inadequate management and board supervision; inadequate lending policies and procedures; excessive level of criticized assets; excessive level of loans not supported by current and satisfactory credit information; excessive level of past-due and nonaccrual loans; an ineffective loan review function; an inadequate allowance for loan and lease losses; violations of law and regulation; an inadequate consumer compliance program; inadequate funds management policies and procedures; an inadequate investment policy; insufficient liquidity; insufficient earnings and capital; internal control deficiencies; and inaccurately filed reports of condition and income.

An Order to Cease and Desist required the bank to employ an outside management consultant, new chief executive officer and a senior lending officer; review and revise its lending policy; take action to eliminate criticized assets; take measures to obtain current and satisfactory credit information; improve and strengthen collection efforts; adopt and implement policies and procedures governing control of nonaccrual loans; establish an effective loan review system; review the adequacy of the allowance for loan and lease losses; correct violations of law; develop a written consumer compliance program; comply with the District's letter directing compliance with the Truth in Lending Act; review and revise the funds management policy; review and revise the investment policy; review liquidity; develop a profit plan; maintain capital at a predetermined level and develop a new capital plan; pay dividends in accordance with law; correct

internal control deficiencies; cease accepting brokered funds; and refile and republish reports of condition and income.

291. Bank with assets of less than \$25 million

An examination of the bank identified the following problems and deficiencies in the bank's condition: ineffective management and board supervision; inadequate loan administration; failure to adhere to the bank's lending policy; an excessive volume of criticized assets; an excessive volume of loans not supported by adequate credit information; excessive past due loans; an ineffective loan review function; an insufficient allowance for loan and lease losses; an inadequate lending policy; inadequate administration of funds management activities; inadequate earnings and capital; violations of law in general and the Bank Secrecy Act in particular; and an inadequate internal audit program.

An Order to Cease and Desist required the appointment of a compliance committee; implementation of a management study; employment of a new senior lending officer; improved loan administration; adherence to lending policy; action to reduce level of criticized assets; current and satisfactory credit information on all loans; improved collection efforts; a new loan review system; maintenance of an adequate allowance for loan and lease losses; a new lending policy; improved funds management administration; no further acceptance of brokered deposits; a new budget; a new capital plan; pay dividends in accordance with law; correct violations of law generally and Bank Secrecy Act; and development of a satisfactory internal audit program.

292. Bank with assets of less than \$25 million

An examination revealed numerous insider related violations of law and regulation and several conflicts of interest. Previously identified deficiencies concerning the lack of formal funds management practices, the lack of an audit program, and poor earnings were again indicated, as was ineffective board and senior management supervision. The chairman of the board and principal shareholder dominated the policy and decisionmaking functions of the bank. Violations of law included 12 U.S.C. §72, 371c, 375a and b, 1972, and 12 C.F.R. §215. Two major conflicts of interest involved the bank's leasing of a proposed branch facility from the chairman's related corporate interest, a small bank at which both the chairman and the president had personal loans. The bank's earnings problems result from a small volume of earning assets and high overhead expenses.

An Order to Cease and Desist required the bank to

increase board membership through the appointment of two additional independent directors; correct all violations of law and regulation, and adopt procedures to prevent their recurrence; correct the violations of 12 U.S.C. §375a and §375b; adjust preferential loan terms on loans to the president and the chairman's related corporation, and restitution of the difference in interest rates; correct the violations of 12 U.S.C. §371c and §1972, and obtain reimbursement of lost earnings opportunity costs; develop and implement a conflict of interest policy; conduct a review of the insider lease arrangement; develop and implement policies and procedures to monitor concentrations of credit; develop and implement a written funds management policy, a written profit plan, and a capital plan; provide written notice of preferred stock dividends, and request prior approval for payment of common stock dividends; have an external audit performed by an independent certified public accountant and require an opinion to be rendered; and develop and implement an internal audit program.

293. Bank with assets of less than \$25 million

A recent examination revealed that deterioration in asset quality because of over-lending by prior management had resulted in depressed earnings. Capital adequacy was impacted by the depressed earnings and the inability of ownership to provide additional support due to illiquidity and the condition of other affiliated banks. A funds management policy was lacking and the allowance for loan and lease losses was inadequate. The lending policy needed revision.

An Agreement required the bank to devise and implement a program addressing the criticized assets; review the allowance periodically and maintain it at an adequate level; develop a strategic plan and a capital plan to maintain capital at or above a predetermined level in relation to assets; revise the bank's lending policy; develop and implement a funds management policy; and restrict dividends.

294. Bank with assets of less than \$25 million

An examination revealed that failure by prior management to provide adequate supervision of the loan portfolio had resulted in a deterioration in asset quality. Higher loan loss provisions caused a reduction in earnings. Bank capital was strained. Violations of law were cited.

An Agreement required the bank to devise and implement a plan addressing the criticized assets. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. Satisfactory credit information was to be obtained for all loans and collateral perfected. The loan

policy was to be revised and updated. An earnings policy was to be implemented looking toward higher earnings. Violations of law were cited.

295. Bank with assets of \$50 to \$100 million

An examination revealed deteriorated loan quality, excessive documentation exceptions, rising levels of other real estate owned and an inadequate allowance for loan and lease losses. Factors causing this decline stem from overreliance upon collateral based lending, primarily real estate with decreasing values, unfamiliarity of loan officers with their credits, aggressive growth goals of the holding company, inadequate supervision, inadequate policies, and anxiety for income. Earnings and capital and external audit criticisms were made.

An Agreement required the bank to conduct a study of management; devise and implement a plan addressing the criticized assets; revise the loan policy and the investment policy; correct all violations of law; correct internal and external audit deficiencies along with internal control deficiencies; devise and follow a funds management policy; address undue concentrations of credit; obtain satisfactory credit information and collateral perfection on all loans as required; and review the allowance for loan and lease losses periodically. A capital plan was called for.

296. Bank with assets of less than \$25 million

Recent asset and loan growth was rapid. Classified assets were high. Loans not supported by current credit information were excessive. Other deficiencies included noncompliance with written loan policy, imprudent underwriting standards, and a loan policy which did not address certain types of specialized lending in which the bank was engaged. Less than satisfactory supervision by management and the directorate was found. Numerous violations of law and regulation were noted including 12 U.S.C. §84, 12 U.S.C. §375(b), 12 U.S.C. §161, 31 C.F.R. §103 and a number of consumer regulations. Internal and external audits were unacceptable. Compliance management systems and internal controls were unsatisfactory.

An Agreement required the bank to develop criticized asset programs; establish an internal loan review system; perform a quarterly review of the allowance for loan and lease losses' adequacy, review and revise the bank's loan policy; develop a written program to improve the loan administration area; obtain current and satisfactory credit and collateral information for all loans listed with exceptions in the Report of Examination; correct all violations of law and adopt specific procedures to prevent future violations; develop an internal audit program; hire an independent CPA to

perform an audit of bank's books and render an opinion; develop a 3-year business plan; conduct a study of management and board supervision; not pay holding company/management consultant fees not in conformance with BC 115; and develop a consumer compliance program.

297. Bank with assets of \$50 to \$100 million

An examination disclosed that the bank's capital had declined significantly. An excessive amount of criticized assets and weak collection efforts were noted. No policy existed governing proper handling of nonaccrual loans. Concentrations of credit were growing uncontrolled, and loan participations were taken by the bank without proper consideration of the credit quality of the original loan. Current credit information was lacking on many loans. The bank had no formal loan review system, and the allowance for loan and lease losses needed periodic review. The bank's earnings were low. The internal audit program was lacking and violations of law were cited. Included in the violations cited were possible violations of 12 U.S.C. §375 involving purchase of bank assets at low prices, and violations of 12 U.S.C. §84 involving losses to the bank. The audit coverage of the bank's electronic data processing (EDP) was lacking and contingency plans were not adequate.

An Order to Cease and Desist required the bank to achieve and maintain a level of equity capital at a predetermined ratio to total assets. Dividends were restricted and a program required to address the criticisms of the bank's loan portfolio. Current and satisfactory credit information was required for all loans. A collection program was to be devised and implemented and nonaccruals subjected to a new policy. Concentrations of credit were to be monitored and controlled and loan participations subjected to policy guidelines. A loan review system was to be established and the allowance for loan and lease losses reviewed periodically and maintained at a satisfactory level. An earnings plan was called for along with an internal audit program and an EDP audit. Violations of law were to be corrected and independent counsel hired to review the cited violations of 12 U.S.C. §375 and §84 for possible reimbursement of the bank. The bank's EDP contingency planning capabilities were to be studied.

298. Bank with assets of \$50 to \$100 million

An examination of the bank revealed its overall condition to be unsatisfactory. Deterioration in the loan portfolio was evident in the sharp increase in classified assets. Other indicators of the loan portfolio deterioration were the increasing levels of nonaccrual loans, past-due loans, and other real estate owned. The

volume of credit and collateral exceptions were excessive. The written lending policy needed further expansion and the allowance for loan losses was found to be inadequate. The asset problems had depleted year-to-date earnings. A capital plan was needed to ensure ongoing capital adequacy. Several violations of law and several internal control deficiencies were cited. Examination of the data processing function disclosed several weaknesses in internal controls, auditing, contingency planning and physical security.

An Agreement required the bank to take steps necessary to correct violations of law and regulation, and to implement procedures to ensure that further violations do not occur. It also agreed to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to adopt a written policy under which renewals may be approved. The bank agreed that it would not grant credit without obtaining and analyzing current and satisfactory credit information and properly perfecting collateral, where applicable. The internal loan review system would be strengthened. The adequacy of the allowance for loan and lease losses would be addressed quarterly, at a minimum. The bank agreed to revise the budget process and submit budgets annually. The bank agreed to develop a 3-year capital plan whereby capital would not be allowed to fall below a minimum percentage ratio of primary capital to total assets. A written program to improve supervision of the data processing function would be developed, as would comprehensive written policies including lending, funds management, investments, and other real estate owned. The bank agreed to correct the internal control deficiencies cited in the Report of Examination.

299. Bank with assets of less than \$25 million

Recent growth of the bank resulted from brokered loans which were then upstreamed to other financial institutions. All of these loans were real estate related with most having simultaneous buy-sell agreements at inflated prices. Liquidity was fair and capital relatively strong; however, if the bank were forced to buy back participations sold, both capital and liquidity concerns would be critical. Further, the likelihood of heavy losses would be pronounced. Seventeen violations of 12 U.S.C. §84 were listed in the Report of Examination.

The Agreement required the bank to analyze management needs; refrain from accepting any brokered loans; employ a certified appraiser to value real property held as collateral; implement a program to reduce criticized assets; improve loan policies and procedures; obtain credit and collateral information on loans lacking such; review and maintain an adequate allow-

ance for loan and lease losses; implement a conflict of interest policy; cease accepting brokered funds; review liquidity on a monthly basis; correct all violations of law including violations of 12 U.S.C. §84; implement policies to reduce unwarranted concentrations in the loan portfolio; maintain primary capital at or above a predetermined level and develop a capital plan; and refile and republish Reports of Condition.

300. Bank with assets of \$25 to \$50 million

An examination of the bank revealed its condition to be less than satisfactory. Poor supervision by the board and management was the primary cause. The examination revealed numerous violations of law including 12 U.S.C. 371(c) and 12 U.S.C. 375(b). There was also a general lack of adequate written policies, procedures and financial planning. Asset quality and earnings reflected deterioration from prior years.

An Order to Cease and Desist required the bank to correct violations of law; develop a conflict of interest policy; institute written policies and procedures for major areas of the bank; and formulate financial planning and strengthen asset quality. An independent outside management consultant was to be hired. The allowance for loan and lease losses was to be maintained at an adequate level. Dividends were restricted.

301. Bank with assets of less than \$25 million

The allowance for loan and lease losses was grossly inadequate based upon asset quality. Understated provisions resulted in inaccurate and misleading reports of condition and income and violations of 12 U.S.C. §161. Board and management supervision were inadequate. Earnings declined with a net loss for the year due to the required allowance for loan and lease losses provision. Dividends exceeded the legal limitation without OCC approval. Conflicts of interest, self dealing, and divided loyalty were evident in the trust department. Funds management supervision was inadequate.

A temporary Order to Cease and Desist was issued which required the bank to immediately cease accepting additional trust accounts and to cease making certain improper payments from bank funds to individuals maintaining trust account assets.

302. Bank with assets of less than \$25 million

The allowance for loan and lease losses was grossly inadequate based upon asset quality. Understated provisions resulted in inaccurate and misleading reports of condition and income and violations of 12 U.S.C. §161. Board and management supervision

were inadequate. Earnings declined with a net loss realized due to the required allowance for loan and lease losses provision. Dividends exceeded the legal limitation without OCC approval. Conflicts of interest, self dealing, and divided loyalty were evident in the trust department. Funds management supervision was inadequate. The bank was under a temporary Order to Cease and Desist which addressed illegal activities in the Trust Department.

A permanent Order to Cease and Desist required the bank to appoint a new full time chief executive officer; employ an independent outside management consultant to perform a study of the bank; adopt a conflict of interest policy; correct violations of law; obtain reimbursement from the directors for the excessive dividends paid; reduce classified assets; obtain current and satisfactory credit information and collateral documentation; establish a loan review system; revise its lending policy; improve and strengthen collection efforts; review and maintain an adequate allowance for loan and lease losses; maintain a level of primary capital to total assets at or above a predetermined minimum; restrict payment of dividends; review and revise its investment policy; develop a funds management policy; cease accepting brokered deposits; review liquidity monthly; implement a strategic plan; prepare and submit a budget; refile and republish an amended Report of Condition; correct internal control deficiencies; implement an internal audit program; have an independent CPA perform an audit of the bank and render an opinion; implement a consumer compliance program; employ a CPA to perform a closing audit of the trust department; surrender fiduciary powers; and terminate trust business.

303. Bank with assets of less than \$25 million

The most recent examination revealed the overall condition had deteriorated. Management and the board had failed to objectively analyze the repayment ability of several long-term borrowers. Director lines were classified during the examination and were cited for violations of law. The allowance for loan and lease losses was found to be inadequate and necessitated a large provision during the examination. The additional provision expense adversely impacted earnings. Primary capital was strained by the volume and severity of classified loans. Overall supervision by management and the board was only fair with deficiencies noted in several areas.

An Agreement required the bank to formulate a criticized asset program; revise the written lending policy; improve loan administration; monitor concentrations; implement a loan review system; evaluate the adequacy of the allowance for loan and lease losses;

review management needs; correct violations of law; develop a funds management policy; and prepare a business and capital plan.

304. Bank with assets of less than \$25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified assets and credit exceptions. The decline in loan quality was primarily due to ineffective supervision and the failure to obtain current financial information. Earnings were poor due to heavy loan losses and capital was considered marginal. Numerous consumer violations were also noted as well as several other violations of law including insider transactions.

An Order to Cease and Desist required the bank to correct all violations of law, rule and regulation and adopt procedures to prevent their recurrence; eliminate the grounds of criticism of each asset in excess of \$10,000 and restrict making loans to borrowers holding criticized loans; develop a program to improve collections and reduce delinquent loans; obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; revise its written lending policy; adopt a written overdraft policy; review the sufficiency and competency of the present managerial staff; implement a monthly loan review program; conduct quarterly reviews of the adequacy of the bank's allowance for loan and lease losses; prepare an analysis of ongoing capital needs and submit a written capital plan; revise written policies and procedures applicable to the investment portfolio; restrict payment of dividends; revise the bank's written liquidity, asset and liability management policy; correct all internal control deficiencies; adopt a written audit program; develop and implement a consumer compliance program; and submit an annual budget.

305. Bank with assets of less than \$25 million

An examination revealed that the bank had serious problems in management and supervision by the board of directors. The lending operations needed a strong senior lending officer. Criticized assets were excessive. Collection efforts were weak and current credit information was not obtained in many cases. The bank's lending policy was deficient and the bank had no formal loan review system. The allowance for loan and lease losses was not reviewed periodically. Concentrations of credit were found that were not subject to policy control or review. No conflict of interest policy existed to govern insider transactions. The bank's capital was deficient and its liquidity was insufficient. A funds management policy was needed.

Violations of 12 U.S.C. §84 were discovered which involved losses to the bank. Violations of 12 U.S.C. §375b were cited which involved extensions of credit to insiders, along with other violations of law. An internal audit program was needed and internal control deficiencies were cited.

An Order to Cease and Desist required the bank to hire a consulting firm to conduct a study of management and board supervision. A program addressing the excessive criticized assets was called for. The collection policy was to be strengthened. A senior lending officer was to be hired. The loan policy was to be revised and a loan review system established. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. Concentrations of credit were to be monitored carefully and unwarranted concentrations removed. A conflict of interest policy was called for. Capital was to be increased to a predetermined level in relation to total assets and the bank's liquidity strengthened. Violations of law were to be corrected and procedures and policy devised to avoid recurrence. The losses on the violations of 12 U.S.C. §84 lending limit were to be reimbursed by the directors unless the directors could establish to the District Administrator's satisfaction that reimbursement was not warranted. Violations of 12 U.S.C. §375b were specifically prohibited and a special counsel was required to review insider transactions to determine the amount and rate of interest needed to bring certain insider loans into conformance with the statute. Dividends were restricted, an internal audit program was to be developed and internal control deficiencies cured.

306. Bank with assets of \$25 to \$50 million

An examination revealed that the bank was involved in trading activity without following OCC guidelines. Since the president's compensation program was based on profits and he had sole investment discretion, a conflict of interest was indicated. Several violations of law were noted.

An Agreement required the bank to develop a policy relating to the trading activity; review the compensation program to eliminate conflicts of interest; revise the investment policy; and correct violations of law.

307. Bank with assets of less than \$25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified assets and credit exceptions. The decline in loan quality was primarily due to ineffective supervision and the failure to obtain current financial

information. Earnings declined due to loan loss provisions.

An Agreement required the bank to eliminate the grounds of criticism of each asset in excess of \$10,000 and cease making loans to borrowers holding criticized loans; obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; revise its written lending policy; implement a monthly loan review program; conduct quarterly reviews of the adequacy of the bank's allowance for loan and lease losses; provide for an external audit with an opinion; conform to the loan policy; develop and implement a written program to improve loan administration; and formulate written policies and procedures for other real estate owned.

308. Bank with assets of \$25 to \$50 million

An examination disclosed continued deterioration in the bank's condition. Management and board supervision were considered inadequate; the volume of classified assets was excessive; past-due loans and loans not supported by adequate credit information were at unacceptably high levels; the bank's loan review function was inadequate; nonaccrual loans were excessive; compliance with the lending policy was poor; the allowance for loan and lease losses was inadequate; liquidity was strained; capital was inadequate; the bank had committed numerous violations of law and regulation; call reports were inaccurately filed and published; the internal audit function was unacceptable; and numerous internal control deficiencies were identified.

An Order to Cease and Desist required the board to appoint a compliance committee; employ an outside management consultant; eliminate criticized assets; strengthen collection efforts; obtain sufficient credit information on all loans; establish a satisfactory loan review system; adopt a program to reduce nonaccrual loans; adhere to the bank's lending policy; maintain an adequate allowance for loan and lease losses; increase liquidity; adopt a strategic plan; develop a new capital plan; pay dividends in accordance with applicable law; correct violations of law, including violations of the Bank Secrecy Act; republish call reports; develop a consumer compliance program; develop an internal audit program; correct internal control deficiencies; and cease accepting brokered deposits.

309. Bank with assets of less than \$25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified assets and credit exceptions. The

decline in loan quality was primarily due to ineffective supervision and the failure to obtain current financial information. Earnings will be poor due to loan loss provisions. One consumer violation was also noted. Audit coverage was inadequate and internal control exceptions were noted in both the commercial and electronic data processing areas.

An Agreement required the bank to correct the violation of law and adopt procedures to prevent recurrence; eliminate the grounds of criticism of each asset and restrict making loans to borrowers holding criticized loans; develop a nonaccrual policy; obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; revise its written lending policy; review the sufficiency and competency of the present managerial staff; implement a monthly loan review program; conduct quarterly reviews of the adequacy of the bank's allowance for loan and lease losses; correct all internal control deficiencies; adopt a written internal audit program; and develop and implement a written program for the data processing area.

310. Bank with assets of less than \$25 million

An examination disclosed that criticized assets had increased to an unsatisfactory level. Heavy loan loss provisions, extraordinary expenses associated with the relocation of the bank, and a decreased net interest margin resulted in poor earnings. Primary capital was marginal due to significant asset growth. Several violations of law were disclosed including violations involving insiders.

A Memorandum of Understanding was executed which required the bank to develop and monitor formal budget projections; develop a 3-year capital plan; obtain reimbursement of an illegal dividend; obtain written approval for dividend payments; develop a program to eliminate criticized assets; revise its lending policy; establish a loan review system; and correct violations of law and prevent further violations of 12 U.S.C. 84; 371(c); 375(a); and/or 375(b).

311. Bank with assets of less than \$25 million

Classified assets increased and were centered in loans to small businesses. Loan administration was poor evidenced by the large volume of documentation exceptions and liberal renewal practices. The recently adopted loan policy was found to be inadequate. Earnings were poor due to inadequate interest margins and allowance provisions. Violations of law were concentrated in the consumer compliance area.

An Agreement required the bank to analyze manage-

ment needs; employ an individual to assist the bank's chief executive officer in the performance of his duties; take action to reduce criticized assets; review and revise the lending policy; review and maintain an adequate allowance for loan and lease losses; correct all collateral and credit information exceptions and make no loans without such information; strengthen collection efforts; establish a loan review system; adopt a policy governing renewals; correct violations of law; revise the asset/liability management policy; develop a profit plan; maintain primary capital at or above an established ratio to total assets and develop a capital program; restrict payment of dividends; cease accepting brokered deposits; develop an internal audit program; correct internal control and EDP deficiencies; and implement a consumer compliance program.

312. Bank with assets of less than \$25 million

An examination disclosed significant deterioration in the condition of the bank. The volume of classified assets had risen to an excessive level due to ineffective loan supervision and high management turnover. Insolvency was avoided only as a result of a capital infusion during the examination. Management and board supervision were considered weak, past-due loans and nonperforming assets were inordinately high. Loans were not supported by current credit information and numerous collateral exceptions were detected. Despite the recent capital infusion, capital remained inadequate. Violations of law were also detected during the examination.

An Order to Cease and Desist required the bank to develop and implement a program designed to eliminate the basis of criticism for all criticized assets; develop a program to improve the bank's loan administration including a comprehensive loan policy; obtain current and satisfactory credit information; strengthen collection efforts; review and maintain an adequate allowance for loan and lease losses; refile and republish amended reports of condition; maintain an adequate primary capital to total assets ratio; submit an annual budget; obtain an external audit; prepare a 3-year strategic plan; and correct all violations of law. A management study by an independent outside management consultant was called for.

313. Bank with assets of \$25 to \$50 million

An examination disclosed significant deterioration in the condition of the bank. The volume of classified assets had risen to an excessive level due to ineffective management, failure to reduce identified problem assets and additional extensions of credit in problem areas. Management and board supervision were considered weak, past-due loans and nonperforming as-

sets were inordinately high. Loans were not supported by current credit information and numerous collateral exceptions were detected. A large percentage of the problem assets were attributable to out-of-territory lending and purchases of poor quality loan participations. Earnings were poor and the allowance for loan and lease losses was inadequate. The bank had failed to comply with the terms of the previous administrative action.

An Order to Cease and Desist required the board to develop and implement a program designed to eliminate the basis of criticism for all criticized assets, develop a program to improve the bank's loan administration including a comprehensive loan policy, obtain current and satisfactory credit information, strengthen collection efforts; review and maintain an adequate allowance for loan and lease losses; maintain an adequate primary capital to total assets ratio, submit an annual budget; obtain an external audit; prepare a 3-year strategic plan; appoint a new chief executive officer; and adopt a written conflict of interest policy.

314. Bank with assets of more than \$1 billion

The bank had deficiencies in the credit administration and control processes and in its currency transaction reporting system. The bank was operating under an Agreement and was in substantial compliance with the Agreement.

An Agreement required improvement in credit administration and correction of 31 C.F.R. violations.

315. Bank with assets of more than \$1 billion

The examination revealed that the bank was suffering from serious liquidity problems, ineffective management, poor asset quality, as well as violation of law that benefited the holding company to the detriment of the bank. In addition there was a general lack of confidence by the financial industry as well as the general public in the condition of the bank based not only on liquidity problems, but also the dominance in bank affairs of two individual holding company board members.

An Order to Cease and Desist required a study of management and board supervision, action to reduce the liquidity strain, injection of capital, and an independent CPA to look into certain transactions involving the holding company. In addition, the order also required the resignation from further participation in bank affairs of the two holding company board members who previously had dominated the bank's board supervision and management. All violations of law were to be corrected. The allowance for loan and lease losses was to be maintained at an adequate

level. Dividends were restricted, and collection efforts were to be strengthened. An audit of the trust department was required. The lending policy was to be revised and the loan review system strengthened.

316. Bank with assets of less than \$25 million

As a result of a follow-up visit subsequent to the examination significant violations of the Bank Secrecy Act (BSA) as well as violations of the bank's legal lending limit were detected. The BSA violations resulted from failure to file required reports as well as improper filings. The lending limit violations occurred as a result of the practice of granting immediate credit based upon uncashed cash deposits.

A temporary Order to Cease and Desist required the board to terminate overdraft privileges on certain accounts, prohibit extensions of credit that exceed the bank's legal lending limit, correct all violations of the Bank Secrecy Act, and stop authorizing credit prior to a full accounting of cash deposits.

317. Bank with assets of \$25 to \$50 million

The bank had not complied with numerous requirements of an agreement. Based upon the noncompliance, the action was upgraded to an Order to Cease and Desist. The current report of examination detailed noncompliance with five articles of the Cease and Desist Order. The same individual had served as chief executive officer throughout the bank's history of administrative actions.

An Order to Cease and Desist required the appointment of a new chief executive officer and reasserted the articles in the previous Agreement.

318. Bank with assets of \$25 to \$50 million

An examination showed severe asset deterioration, serious insider abuses and numerous violations of law. Classified assets had increased, the allowance for loan and lease losses was inadequate, and there was no supervision in the lending area. Capital was inadequate, as was liquidity with reliance on brokered deposits.

An Order to Cease and Desist required the bank to cease and desist issuing cashier's checks without collected funds; precluded extensions of credit to some individuals and companies; and precluded certain individuals from participating in lending. Also, the board was to correct violations of law; develop a conflict of interest policy; hire a new chief executive officer and senior lending officer; and perform a management study. The bank was required to protect criticized assets; implement a loan administration pro-

gram; and devise an overdraft policy. Further, the bank was to strengthen collection efforts; reduce concentrations; establish a loan review system; review the allowance for loan and lease losses; and develop a funds management policy. The bank was to increase liquidity; not accept brokered deposits; develop a profit plan and strategic plan; maintain primary capital at or above an established level; pay dividends with prior written approval; and correct internal control deficiencies.

319. Bank with assets of less than \$25 million

An examination disclosed significant deterioration in the condition of the bank. Loan losses, charge-offs and operating losses decreased capital to an inadequate level. Serious liquidity problems arose during the examination. The bank was heavily dependent on volatile deposits. During the examination the executive management of the bank resigned and the president was fired.

An Order to Cease and Desist required the bank to maintain an adequate level of primary capital; appoint a new chief executive officer; obtain bankers' blanket bond protection; maintain adequate liquidity; prepare a 3-year business plan; develop a funds management policy; develop a program to eliminate the basis of criticism of criticized assets; maintain an adequate allowance for loan and lease losses; obtain current and satisfactory credit information; and correct all violations of law and internal control deficiencies.

320. Bank with assets of less than \$25 million

An examination showed the bank to be virtually insolvent. The loan portfolio had deteriorated drastically. Primary capital dropped to a precarious level. The major cause of these serious problems was incompetent management and ineffective board supervision. Over 50 percent of the loan portfolio lacked current or adequate credit information. Earnings at the bank were poor and the allowance for possible loan and lease losses was depleted during the exam. A high level of nonaccrual loans will affect future earnings. A temporary Cease and Desist Order had required an immediate capital injection.

A permanent Order to Cease and Desist required the board to employ a full time chief executive officer; employ a senior lending officer; employ an independent outside management consultant; and maintain equity capital. In addition, the bank was precluded from declaring dividends without prior written approval of the District Administrator. The bank was required to take action with regard to criticized assets; obtain current and satisfactory credit information; implement a written program to improve collection ef-

forts, implement a written policy for renewal of loans, implement written policies with regard to nonaccrual loans, and revise the lending policy. The bank was to establish a loan review system, provide for an adequate allowance for loan and lease losses, refile and republish call reports, prepare a 3-year business plan, fill vacancies on the board, correct violations of law, implement a policy to ensure that other real estate owned was managed in accordance with law, and review and revise the bank's investment policy. Also, the board was to develop and implement an internal audit program, annually have a certified public accountant perform an audit, and develop a written funds policy.

321. Bank with assets of \$100 to \$500 million

The report of examination disclosed an increase in classified assets, a high concentration of classified credits, violations of an existing Cease and Desist Order and violations of law. In addition, there was an inadequate allowance for loan and lease losses, inadequate loan review, and lack of sufficient credit information. A high level of loans to insiders were classified as substandard and loans to insiders were being extended without adequate credit information.

An Order to Cease and Desist required the bank to appoint a compliance committee, employ an independent outside consultant to perform a management study, and develop a written comprehensive conflict of interest policy. In addition, the board was required to correct violations of law; protect the bank's interest with regard to criticized assets; revise the written program for collection efforts; and review and revise bank's written lending policy. The board was to obtain current and satisfactory credit information. The bank was to follow Banking Circular No. 181. The board was to revise the bank's loan review program; maintain an adequate allowance for loan and lease losses; adopt written policies with regard to nonaccrual loans; maintain primary capital at a predetermined level; review and revise the bank's funds management policy; and not solicit brokered deposits. In addition, the board was to develop a business plan; not declare or pay dividends without prior written approval of the District Administrator; develop an internal audit program; develop a policy with regard to other real estate owned; and prepare a report quarterly detailing loan participations purchased sold.

322. Bank with assets of less than \$25 million

An examination of the bank showed significant problems because of poor supervision and management. Classified assets had increased dramatically and primary funding was through brokered deposits. Credit quality was poor. In addition, there were numerous

violations of law. An infusion to the allowance for loan and lease losses was required which depleted the earnings. Liquidity was severely hampered by the bank's asset and liability mismanagement. Management turnover created voids in senior management.

An Order to Cease and Desist required the bank to appoint a new chief executive officer and employ a senior lending officer. In addition, the bank was required to appoint a compliance committee, employ an outside management consultant, increase liquidity, not accept or solicit brokered deposits, and develop a written funds management policy. In addition, the bank was required to review and revise the investment policy, take action with regard to criticized assets, develop a comprehensive loan review policy, and implement a program to strengthen collection efforts. In addition, the bank was required to establish a loan review system, review the adequacy of the allowance for loan and lease losses, take steps necessary to obtain current and satisfactory credit information, develop and implement an internal audit program, adopt written policies and procedures with regard to nonaccrual loans, develop and implement an overdraft policy, and correct all violations of law. The bank was required to develop and implement a consumer compliance program, develop a capital program, not declare dividends without prior written approval of the District Administrator, submit a budget, institute a comprehensive system of internal controls, develop and implement a conflict of interest policy, and refile and republish certain call reports.

323. Bank with assets of \$25 to \$50 million

A recent examination revealed that the volume of criticized assets had increased, management and board supervision was weak, loans were not supported by current and satisfactory credit information, and the bank was not in compliance with a prior formal Agreement.

An Order to Cease and Desist required the bank to employ an outside consultant to conduct a study of the board and management, address criticized assets, obtain current and satisfactory credit information for all loans, improve collection efforts, revise the written lending policy and independent loan review system, and develop an adequate allowance for loan and lease losses. Further, the Order required a nonaccrual loan policy; corrections of violations of law; primary capital maintained at or above a minimum level, no payment of dividends without written approval of the District Administrator; a budget, and a 3-year business plan. In addition the bank was required to develop a written funds management policy, devise an investment policy, and employ a compliance of-

ficer. Improvements were required in trust asset administration and in the consumer compliance area.

324. Bank with assets of \$25 to \$50 million

An examination disclosed significant deterioration in the bank's condition. The major problem centered around insider abuse by the owners and directors of the bank. Management and board supervision were considered extremely weak and there were numerous violations of law.

An Order to Cease and Desist required the bank to correct all violations of law and indemnify the bank for all losses on 12 U.S.C. §84 violations. The bank was further required to hire a new chief executive officer and senior lending officer; adopt a comprehensive conflict of interest policy; develop a program addressing criticized assets; establish a loan review system; maintain an adequate allowance for loan and lease losses; and develop a written lending policy. In addition, the bank was required to implement written policies with regard to nonaccrual loans; adopt written policies and procedures to reduce concentrations of credit; adopt a written liquidity policy; and republish recent call reports. The bank was required to adopt a budget; maintain primary capital at or above a predetermined level; and not pay dividends without prior written approval of the District Administrator. The bank was also required to develop a profit plan; implement an internal audit program; implement a consumer compliance program; and implement policies and procedures for proper trust asset administration.

325. Bank with assets of more than \$1 billion

There were operational deficiencies in the trust company's procedures. Procedures were in place, however they were at the bank's headquarters, not at its trust company's headquarters. Also, there were violations of trust regulations.

An Agreement was executed which required the trust company to maintain and abide by its own procedures and to correct trust violations.

326. Bank with assets of less than \$25 million

Even though the bank was previously under a Memorandum of Understanding and Agreement, its condition continued to deteriorate. Primary capital dropped seriously. Liquidity was inadequate.

A temporary Order to Cease and Desist was issued that required a capital program, an injunction of capital, and maintenance of primary capital at a predetermined figure. Brokered funds were barred and alter-

native sources of liquidity were to be developed in a short period of time.

327. Bank with assets of less than \$25 million

Even though the bank was operating under a Memorandum of Understanding and an Agreement, its condition continued to deteriorate. Primary capital had dropped significantly and liquidity was inadequate. A temporary order was issued which required improved capital and liquidity. In addition to these problems, lending management and its practices were weak.

A permanent Order to Cease and Desist was issued that required improved lending practices and policies; better management, including a new chief executive officer; and higher capital. The chief executive officer was restricted from involvement in lending. Dividends were restricted; current and satisfactory credit information was to be obtained for all loans and collateral perfected; collection efforts were to be strengthened; and the allowance for loan and lease losses was to be reviewed periodically. Finally, a CPA was to review the bank's accounts; liquidity was to be monitored closely; and call reports were to be refilled with accurate information.

328. Bank with assets of \$25 to \$50 million

An examination revealed inadequate capital, inadequate management, poor earnings, excessive levels of criticized assets, past-due loans, nonaccrual loans, and credit and collateral exceptions. Loan participations and concentrations of credit were of concern. The bank lacked an adequate internal loan review. Amended reports of condition and income needed to be filed. The allowance for loan and lease losses and liquidity were inadequate. Compliance with the bank's policies and with applicable laws, rules and regulations was unsatisfactory. Violations of law, including violations of 12 U.S.C. §84 resulting in loss, were cited. The bank lacked an adequate internal audit program.

An Order to Cease and Desist was issued requiring the bank to appoint a compliance committee and to employ an independent outside management consultant. The bank was required to eliminate the basis of criticism of assets. The acquisition of loan participations was restricted. Greater supervision and control of nonaccrual loans was required. Collection efforts were to be strengthened. Amended reports of condition and income were required. Credit and collateral exceptions were to be corrected. The bank was required to reevaluate its current loan review system and to reduce unwarranted concentrations of credit. An adequate allowance for loan and lease losses was to be maintained. Liquidity was to be increased. The bank's strategic plan was to be revised with a new

profit plan. The bank was required to achieve and maintain capital at a predesignated level and to develop a capital plan. The declaration and payment of dividends were restricted. Adherence with all bank policies was to be developed. All violations of law, including violations of 12 U.S.C. §84, were to be corrected. The bank's board of directors was required to reimburse the bank for the losses resulting from a violation of 12 U.S.C. §84. An internal audit program was to be developed. The acquisition of brokered deposits was restricted.

329. Bank with assets of \$100 to \$500 million

An examination revealed inadequate capital, poor earnings, inadequate management, excessive levels of criticized assets, past-due loans, nonaccrual loans, and credit and collateral exceptions. Loan participations and concentrations of credit were of concern. Reports of Condition and Income needed to be restated. The bank's internal loan review was unsatisfactory. The allowance for loan and lease losses and liquidity were inadequate. Compliance with the bank's policies and with all applicable laws, rules and regulations was poor. Violations of law, including violations of 12 U.S.C. §84 resulting in losses, were cited. The bank lacked an adequate internal audit program.

An Order to Cease and Desist was issued requiring the bank to appoint a compliance committee and to employ an independent outside management consultant. The bank was required to eliminate the basis of criticism of assets. The acquisition of loan participations was restricted. The supervision and control of nonaccrual loans was required. Collection efforts were to be strengthened. Reports of condition and income were to be amended. Credit and collateral exceptions were to be corrected. The bank was required to reevaluate its current loan review system and to reduce unwarranted concentrations of credit. An adequate allowance for loan and lease losses was to be maintained. An increase in liquidity was required. The bank's strategic plan was to be revised. The bank was required to achieve and maintain capital at a predesignated level and to develop a capital plan. The declaration and payment of dividends were restricted. Adherence with all bank policies was to be monitored and enforced, and a compliance program was to be developed. All violations of law, including violations of 12 U.S.C. §84, were to be corrected. The bank's board of directors was required to reimburse the bank for losses resulting from a violation of 12 U.S.C. §84. An internal audit program was to be developed. The acquisition of brokered deposits was prohibited.

330. Bank with assets of \$25 to \$50 million

An examination revealed inadequate management; inadequate lending practices; excessive levels of crit-

icized assets; past-due loans; nonaccrual loans; and credit and collateral exceptions. Internal loan review, the allowance for loan and lease losses, and capital and funds management were also found to be inadequate. The bank's acquisition of loan participations, its investment policy, and its internal audit program were of concern. The bank's filed reports of condition and income did not accurately reflect its condition. Violations of law, including violations of consumer protection laws, were cited.

An Order to Cease and Desist was issued requiring the bank to appoint a compliance committee and employ a senior lending officer. Violations of law were to be corrected. The bank was also required to employ an independent outside management consultant and to eliminate the basis of criticism of assets. The bank's written lending policy was to be revised to specifically address agricultural loans and to otherwise include the fundamental elements of a sound loan policy. All extensions of credit were to be granted in compliance with the revised loan policies and procedures. Collection efforts were to be strengthened. Greater supervision and control of nonaccrual loans was required. The bank's loan administration was to be improved. Credit and collateral exceptions were to be corrected. The acquisition of loan participations was restricted. The bank was required to improve its loan review system. An adequate allowance for loan and lease losses was to be maintained. The bank's investment policy was to be revised. The acquisition of brokered deposits were prohibited. A written funds management policy was required. Amended Reports of Condition and Income were to be republished. A profit plan and a capital program were to be developed. The declaration and payment of dividends were restricted. An expanded internal audit program and an expanded consumer compliance program were to be implemented.

331. Bank with assets of less than \$25 million

An examination revealed inadequate management and board supervision, excessive levels of criticized assets, past-due loans, nonaccrual loans, and credit and collateral exceptions. Capital, the allowance for loan and lease losses, loan administration, and internal loan review were inadequate. The bank lacked adequate internal and external audit functions. The lack of timely recognition of losses required amendments to the bank's reports of condition and income. The bank's liquidity, funds management function, and investment policy were of concern. Internal control deficiencies were noted. Numerous violations of law were cited, including violations of consumer protection laws, as well as violations of 12 U.S.C. §§60 and 84 resulting in losses.

An Order to Cease and Desist was issued requiring the bank to appoint a compliance committee and employ an independent outside management consultant. The basis of criticism of assets was to be eliminated. The bank was required to develop a loan policy and a loan review system. Collection efforts were to be strengthened. The supervision and control of nonaccrual loans were required. Credit and collateral exceptions were to be corrected. The bank's loan administration was to be improved. The acquisition of loan participations was restricted. The bank's board of directors was required to correct all violations of 12 U.S.C. §84 and to cause the bank to be reimbursed for losses resulting from violations of 12 U.S.C. §§84 and 60(b). All other violations of law were to be corrected. An adequate allowance for loan and lease losses was to be maintained, the bank was required to achieve and maintain capital at a predesignated level and to develop a 3-year capital program. The declaration and payment of dividends were restricted. A profit plan was to be developed, the bank was required to amend several reports of condition and income. An independent certified public accountant was required to perform external audits on an annual basis. An internal audit program and a funds management policy were to be developed. Monthly liquidity reviews were required. An investment policy and a consumer compliance program were to be developed. Internal control deficiencies were to be corrected. The acquisition of brokered deposits was prohibited.

332. Bank with assets of \$25 to \$50 million

An examination revealed that the bank had excessive criticized assets. An effective senior lending officer was lacking and management itself was inadequate. The bank's loan administration was poor, lending policies were not followed, and the loan review system needed revision. The bank's program to maintain an adequate allowance for loan and lease losses was weak and capital was strained.

An Order to Cease and Desist required the bank to engage an independent outside management consultant to review existing management and suggest improvements. Further, the bank agreed to devise a program addressing the criticized assets and restrict additional lending involving borrowers with criticized loans. The loan administration was to be improved with current and satisfactory credit information obtained and collateral perfected as appropriate. The loan review system was to be revised and updated and a capital program developed designed to maintain capital at or above a minimum established level. Dividends were made subject to prior written approval of the District Administrator. The allowance for loan

and lease losses was to be reviewed periodically and maintained at an adequate level.

333. Bank with assets of less than \$25 million

An examination revealed that the bank had excessive classified assets. The senior lending officer position had been vacant for sometime and management of the bank was inadequate. Current and satisfactory credit information was lacking on many loans as was collateral perfection on several secured loans. The bank's loan review system was inadequate and collection efforts were weak. The lending policy needed to be updated and the allowance for loan and lease losses was inadequate. Capital was marginal and a funds management policy was needed. Earnings were poor, and deficiencies were noted in the internal audit program. Violations of law were cited.

An Order to Cease and Desist required the bank to develop a program addressing the criticized assets. A new senior lending officer was to be appointed and a management study undertaken. Appropriate credit information was to be obtained for all loans and the collateral exceptions remedied. The loan review system was to be revised and collection efforts strengthened. A revised lending policy was called for and periodic reviews of the allowance for loan and lease losses in order to maintain it at an adequate level were required. A capital plan was to be devised to maintain capital at a predetermined level and a funds management policy was to be devised. An earnings plan was called for. Deficiencies in the internal audit program were to be arrested as were all violations of law. Dividends were restricted.

334. Bank with assets of less than \$25 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased to an excessive level due to ineffective loan supervision. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Management and board supervision were considered weak; loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information, and funds management procedures were unsatisfactory. The level of capital was considered inadequate and earnings were poor. Violations of law were found.

An Order to Cease and Desist required the board to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; have an independent management study made; hire a

senior lending officer; strengthen collection efforts; develop a written loan policy; a loan review system, an investment policy, a funds management policy, a profit plan, a 3-year capital program, and an EDP audit; correct violations of law; restrict dividends; and develop a plan to reduce dependence on borrowed funds.

335. Bank with assets of \$25 to \$50 million

An examination revealed that the bank had excessive criticized assets. Management was inadequate and the bank lacked an effective capable president. Current and satisfactory credit information was not available on all loans and the bank's lending policy needed revision. No nonaccrual policy existed and collection efforts were weak. The bank had no formal loan review system to identify problem loans, and its allowance for loan and lease losses was not adequate. No conflict of interest policy was established, and salaries and fees of certain insiders were not documented and expense payments approved as discussed in Banking Circular 115. Equal Credit Opportunity Act (15 U.S.C. §1601) violations were cited, as were Fair Credit Reporting Act violations (15 U.S.C. §1681). Violations of law and regulations on the commercial side were cited. The bank lacked a consumer compliance program. An internal audit program was needed and other real estate owned (OREO) was not being handled according to regulation. The bank had no funds management policy. Capital was inadequate and earnings were low.

An Order to Cease and Desist required the bank to hire an independent management consultant to review management and supervision by the board of directors. A new president was to be hired. A program addressing the criticized assets was also called for, as was current credit information on all loans. The bank's lending policy was to be reviewed and revised and a nonaccrual policy developed. Collection efforts were to be strengthened and a loan review system established. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. A conflict of interest policy was to be devised. The salary, fee and expense payments were to be checked by the independent management consultant against the requirements of Banking Circular 115. Violations of law were to be corrected including violations of 15 U.S.C. §§1601, and 1681 and a consumer compliance program established. An internal audit program was to be established and an audit performed. OREO was to be managed in compliance with regulations and a funds management policy developed. A profit plan was called for and the bank was ordered to maintain primary capital at or above a predetermined level. Dividends were restricted.

336. Bank with assets of less than \$25 million

An examination of the bank revealed that classified assets were excessive and capital was inadequate. Earnings were poor and had been on a consistent downward trend. There was continued substantial noncompliance with the Agreement then in effect. Loans were of poor quality and had a large number of credit and collateral exceptions, as well as delinquencies. The internal loan review system and loan policy were inadequate. In fact, specific problems were noted in all areas of loan function including a very inexperienced lending staff. The bank's funds management policy was not adhered to and significant rate sensitive gaps were noted.

An Order to Cease and Desist was entered into that required the bank to employ an experienced lending officer, develop a program to address criticized assets, obtain current and satisfactory credit information, and develop and implement an improved loan review program and policy. The bank's allowance for loan and lease losses was to be reviewed quarterly and its primary capital was to be maintained at a predetermined level. No dividends were to be paid and the bank was not permitted to accept brokered deposits. The bank was to adopt a written conflict of interest policy for insiders and a policy to ensure that other real estate owned is managed in accordance with 12 U.S.C. §29. Dividends were restricted.

337. Bank with assets of \$100 to \$500 million

An examination revealed an excessive amount of criticized assets, an inadequate allowance for loan and lease losses, an inadequate lending policy, excessive collateral and credit exceptions, violations of law, inaccurate call reports, inadequate investment and funds management policies, inadequate capital and poor earnings and inadequate policies and procedures for the bank's trust department.

A Memorandum of Understanding required the bank to devise a program to address the criticized assets; develop an internal loan review program; review and maintain an adequate allowance for loan and lease losses; revise and implement adequate loan, investment, funds management and trust policies; correct credit and collateral exceptions; develop a profit plan; maintain adequate capital; notify the district administrator of proposed dividend payments; and refile and republish call reports.

338. Bank with assets of \$100 to \$500 million

An examination revealed an excessive amount of criticized assets; poor management; violations of 12 U.S.C. §§84, 375a, 375b, and 31 C.F.R. §103; an

inadequate lending policy; poor loan administration; inadequate loan review; excessive credit and collateral exceptions; poor collection efforts; improper accounting of interest; an inadequate allowance for loan and lease losses; conflicts of interest; inadequate funds management and investment policies; poor liquidity; poor earnings; inadequate capital; inadequate internal and external audit programs; inadequate internal controls; and inadequate management reports.

An Order to Cease and Desist required the bank to devise a program to address criticized assets; correct violations of law; develop and implement adequate lending; funds management and investment policies; develop a loan administration and loan review program; correct credit and collateral exceptions; improve collection efforts; account for interest on loans properly; review and maintain an adequate allowance for loan and lease losses; maintain adequate capital; develop a conflict of interest policy; improve liquidity; develop a profit plan; develop an internal audit program; ensure accurate management reports; improve internal controls; and hire an independent certified public accountant to audit the bank.

339. Bank with assets of \$25 to \$50 million

The report of examination disclosed the following problems and deficiencies in the bank's condition: ineffective management and board supervision; inadequate capital; violations of 12 U.S.C. §84; other violations of law; a high volume of criticized assets; failure to obtain recent appraisals of other real estate owned (OREO); unsound loan to deposit ratio; an excessive volume of loans unsupported by adequate credit information; inadequate loan review; ineffective collection efforts; an inadequate allowance for loan and lease losses; inadequate liquidity; an inadequate asset and liability policy; strained liquidity; and internal control deficiencies.

An Order to Cease and Desist required the bank to appoint a compliance committee; inject capital; pay dividends in accordance with applicable law; correct violations of law in general and of 12 U.S.C. §84 in particular; employ an outside management consultant; reduce criticized assets; obtain appraisal on OREO; obtain adequate credit information on all loans; establish a satisfactory loan review function; improve collection efforts; develop a policy to ensure OREO is managed in accordance with applicable law; maintain allowance for loan and lease losses at an adequate level; revise liquidity levels; implement a strategic plan; and correct internal control deficiencies.

340. Bank with assets of \$50 to \$100 million

The report of examination identified the following problems and deficiencies in the bank's condition: ineffective management and board supervision; excessive criticized assets; an excessive volume of loans lacking satisfactory credit information; an inadequate lending policy; failure to adhere to lending policy; excessive nonaccrual loans; inadequate collection efforts; an inadequate loan review function; an inadequate allowance for loan and lease losses; insufficient capital; insufficient earnings; inadequate liquidity; violations of law in general and 12 U.S.C. §84 in particular; inadequate internal audit; and violations of the Bank Secrecy Act.

An Order to Cease and Desist required the bank to appoint a compliance committee; hire an outside management consultant; appoint a new senior lending officer; reduce criticized assets; obtain satisfactory credit information on all loans; revise the bank's lending policy; adhere to the new lending policy; adopt and implement a nonaccrual loan policy; strengthen collection efforts; establish an effective loan review system; maintain an adequate allowance for loan and lease losses; develop a new capital plan; pay dividends in accordance with law; develop profit and strategic plans; revise investment and funds management policies; maintain adequate liquidity; correct violations of law in general and 12 U.S.C. §84 in particular; develop an internal audit program; cease accepting brokered deposits; and correct violations of 31 C.F.R. §103.

341. Bank with assets of \$25 to \$50 million

An examination of the bank revealed that criticized assets were excessive. Credit administration practices needed improvement. Collateral and statement exceptions were unacceptably high. Practices evidenced collateral based lending rather than using cash flow analysis. An independent loan review function was needed and the loan policy needed expansion. The president was overburdened and could not effectively supervise both the lending portfolio and perform his duties as president. The analysis process used by the bank to determine an adequate allowance for loan and lease losses needed to be refined and formalized. Earnings had been declining and resulted in a loss caused by high loan loss provision expense and high overhead. Current management structure was ineffective due to the lack of a qualified executive vice president. Several violations of law and regulation were noted. Funds management decisionmaking needed to be formalized as did asset and liability management.

A Memorandum of Understanding required the bank

to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed not to make, review, or extend any loan unless in conformity with the bank's loan policies and procedures and to establish a loan review system. Current and satisfactory credit information would be obtained on all loans and collateral exceptions corrected. The bank agreed that it would not grant credit without obtaining and analyzing current and satisfactory credit information and properly perfecting collateral, where applicable. The bank's allowance for loan and lease losses was required to comply with Banking Circular 201. Violations of law and regulation would be corrected.

342. Bank with assets of less than \$25 million

An examination of the bank revealed a deterioration in the bank's overall condition. Major problems included high levels of classified assets and high amounts of delinquent and nonaccrual loans. Management was reluctant to force problem borrowers to seek alternative sources of financing. Poor and unacceptable loan administration was cited. A key loan officer resigned from the institution which posed staffing problems. The bank's internal loan review system needed to be strengthened. Inadequate analysis and review of the bank's allowance for loan and lease losses was also cited. The allowance for loan and lease losses was depleted due to significant loan losses identified during the examination. Earnings performance was poor, due to the provision needed to the allowance. Interest margins declined due to the increasing levels of nonaccrual assets. Dividends and management fees to the holding company were high and needed to be addressed. Primary capital was considered inadequate.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank was prohibited from purchasing any asset without complying with the provisions of Banking Circular 181. The internal loan review system was to be strengthened and the adequacy of the bank's allowance for loan and lease losses reviewed periodically. The bank was to achieve and thereafter maintain a primary capital to total asset ratio at or above a predetermined level. Dividends were restricted. A new senior lending officer was required. Payments to the holding company were required to be in conformance with Banking Circular 115.

343. Bank with assets of less than \$25 million

The bank's overall condition was found to be unsatisfactory. Criticized assets were high, as were docu-

mentation exceptions. The bank lacked an internal loan review function and documented reviews of the allowance for loan and lease losses were not performed. Loan losses depleted the allowance and necessitated substantial expense provisions to restore its adequacy. This provision dramatically reduced earnings for the year. Substantial noncompliance with banking laws was noted. The major cause of the decline in the bank's condition was management's failure to adhere to established bank policies and prudent lending practices. Supervision by the board of directors was lax, and many areas were without established policies, or revisions were necessary.

An Agreement required a program addressing the excessive criticized assets; a management study; the adoption of a new investment policy; a securities trading policy; a nonaccrual loan policy; an overdraft policy; and a capital plan. Credit information and collateral deficiencies were to be corrected and an internal loan review system devised and implemented. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level. Violations of law were to be corrected, an audit performed by an independent CPA and internal control deficiencies corrected.

344. Bank with assets of \$100 to \$500 million

An examination revealed excessive criticized assets. The allowance for loan and lease losses was insufficient to absorb the loan losses and a substantial provision from earnings was required to replenish the account. The bank's earnings were severely reduced although capital remained adequate. Collection efforts were poor. Violations of law were cited.

A Memorandum of Understanding was executed which required the bank to develop a program to eliminate criticized assets; improve collection efforts; maintain an adequate allowance for loan and lease losses; correct violations of law and develop a system to prevent future violations; and develop a profit plan to improve earnings.

345. Bank with assets of less than \$25 million

An examination revealed an excessive amount of criticized assets; poor management; excessive credit and collateral exceptions; nonconformance with the lending policy; an inadequate allowance for loan and lease losses; inadequate capital; poor earnings; and violations of law.

An Order to Cease and Desist required the bank to devise a program to address criticized assets; hire a new senior lending officer; correct credit and collateral exceptions; comply with the bank's lending policy; maintain an adequate allowance for loan and lease

losses; achieve and maintain adequate capital; develop a profit plan; and correct violations of law.

346. Bank with assets of \$25 to \$50 million

An examination revealed that criticized asset levels were inordinately high, including several criticized loans to insiders. Collateral and credit documentation exceptions and nonaccruals were excessive. The allowance for loan and lease losses was inadequate as was the internal loan review system. Capital was inadequate and management was poor. Numerous violations of law were cited and internal control deficiencies were noted. The bank's funds management policy was also found to be inadequate.

An Order to Cease and Desist required the bank to employ an independent management consultant; develop a program to address criticized assets; adopt and implement a comprehensive conflict of interest policy; and take corrective action regarding nonaccrual loans. The bank's allowance for loan and lease losses was to be reviewed quarterly and its primary capital maintained at or above a predetermined level. The bank was also required to obtain current and satisfactory credit information on numerous loans; establish a loan review system and a written policy regarding renewals; improve collection efforts; develop a profit plan which included certain minimum elements; correct internal control deficiencies; and finally, correct all cited violations of law and restrict dividends.

347. Bank with assets of less than \$25 million

An examination revealed that classified assets were excessive and capital was severely inadequate. Earnings had deteriorated significantly and the board of directors was providing inadequate supervision. Nonaccrual and past-due loans were extremely high. The bank's allowance for loan and lease losses were inadequate and its internal and external audit coverage was unacceptable. Violations of law, including three violations of 12 U.S.C. §84, were also discovered.

An Order to Cease and Desist required the bank to employ an independent outside management consultant to review and provide a written report regarding management of the bank; develop a program to address criticized assets; establish a loan review system; obtain current and satisfactory credit information on numerous loans; and to hire an independent certified public accountant to perform an audit of the bank. Additionally, the bank was required to correct all violations of 12 U.S.C. §84; maintain an adequate allowance for loan and lease losses; develop and implement an internal audit program; not pay divi-

dends without prior OCC approval; and develop a profit plan.

348. Bank with assets of less than \$25 million

An examination revealed deterioration in asset quality, low earnings and marginal capital. Significant out-of-territory loans of low quality were found. The bank had no policy governing nonaccrual loans and no loan review system. The allowance for loan and lease losses was inadequate. Management was weak. Violations of law and some apparent conflicts of interest were noted.

An Agreement required the bank to establish a program addressing the criticized assets; establish a conflict of interest policy; correct violations of law; restrict out-of-territory lending; and perform a management study. Dividends were restricted and a capital plan was called for which was to require that capital be maintained at or above a predetermined level. The allowance for loan and lease losses was to be reviewed periodically and maintained at an adequate level.

349. Bank with assets of \$25 to \$50 million

The overall condition of the subject bank was unsatisfactory and had deteriorated from the last examination. Loan administration was ineffective. Heavy loan losses adversely impacted earnings. A violation of law associated with the bank's trust activities was cited. Adequate credit information was lacking on several loans and the bank had no formal internal review systems. A nonaccrual policy was lacking.

An Agreement required the bank to develop a program addressing criticized assets; obtain adequate credit information; develop an adequate internal loan review system; adhere to established loan policies; develop a nonaccrual loan policy; develop financial projections; and correct the violation of law.

350. Bank with assets of less than \$25 million

An examination of the bank revealed deterioration in asset quality as a result of liberal lending practices. The level of classified assets was considered excessive. Inordinately high levels of financial statement and collateral exceptions were also noted. A violation of 12 U.S.C. §84 was cited. Capital was marginal and projections indicated that capital could fall further. Moreover, the bank lacked a written policy covering liquidity and funds management practices.

A Memorandum of Understanding required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds

of criticism for all assets criticized. The bank's written lending policy was to be revised and current and satisfactory credit information obtained for all loans. Collateral exceptions were to be corrected. The bank agreed to assess the adequacy of the bank's allowance for loan and lease losses; remedy deficiencies in the quarter of discovery; and to establish a program for the maintenance of an adequate allowance. The bank agreed to correct violations of law and regulation including the violation of 12 U.S.C. §84 and to develop a 3-year capital plan maintaining capital at or above a predetermined level. A written funds management policy and written asset/liability policy were also required.

351. Bank with assets of less than \$25 million

An examination revealed inadequate supervision by management, insider conflicts and abuses, weak earnings, and administrative deficiencies in funds management and liquidity planning. Weaknesses were also noted in loan administration. Several violations of law were cited including repeat violations involving insider transactions. Weak earnings were attributed to increased overhead in the form of higher officer salaries and occupancy expense. Audit coverage was inadequate. The allowance for loan and lease losses was not maintained at an adequate level.

An Agreement required the bank to develop a comprehensive conflict of interest policy; correct violations of law; revise the lending policy; develop a program to improve loan administration; review and maintain an adequate allowance for loan and lease losses; expand the bank's internal loan review system; develop a funds management policy; have an adequate external audit performed; and develop a profit plan.

352. Bank with assets of less than \$25 million

Inadequate and ineffective supervision by management of the loan portfolio had led to a significant increase in classified assets. Earnings were down due to the expense associated with a move of the main office and the construction of new premises and an additional provision to the allowance for loan and lease losses. Primary capital was threatened by potential deterioration in asset quality. Funds management procedures were weak. Margin and rate sensitivity were not monitored on an ongoing basis, and no policy was in effect. Violations of law were cited including violations of 31 C.F.R. §103.

An Order to Cease and Desist required the bank to employ a capable chief executive officer, develop a program addressing criticized assets; review and revise the lending policy; obtain satisfactory credit information; correct collateral deficiencies; establish

an internal loan review; maintain an adequate allowance for loan and lease losses; develop a written funds management policy; develop a profit plan; expand the information submitted to the board; improve the management information system; correct all accounting deficiencies; rectify internal control deficiencies; correct all violations of law including violations of 31 C.F.R. §103, and develop a 3-year capital plan.

353. Bank with assets of less than \$25 million

Ineffective loan administration was the principal cause for the bank's deterioration. Criticized assets had increased and heavy loan loss provisions resulted in poor earnings. Capital was marginal in view of the poor asset quality and poor earnings. Funds management procedures were informal and needed strengthening. Audit procedures were unacceptable.

An Agreement required the bank to develop a program addressing criticized assets; obtain adequate credit information and complete collateral documentation; develop an internal loan review system; revise the lending policy; review and maintain an adequate allowance for loan losses; develop a funds management policy; develop financial projections and a capital plan; and have an independent audit performed.

354. Bank with assets of less than \$25 million

The bank had experienced a significant deterioration in asset quality because of the failure of management to adjust lending practices to effectively deal with negative trends. The level and severity of criticized assets had increased significantly. Heavy loan loss provisions resulted in poor earnings. Written policy guidelines were needed for liquidity and funds management.

An Agreement required the bank to develop a program addressing criticized assets; revise the lending policy; develop a nonaccrual policy; obtain adequate credit information; develop an internal loan review system; review and maintain an adequate allowance for loan and lease losses; and develop a funds management policy.

355. Bank with assets of \$50 to \$100 million

Weak loan supervision, a lack of sound lending policies and procedures and failure to address problem borrowers resulted in an inordinate level of classified assets. These same problems were noted in previous examinations; however, board and management had not made the necessary corrections. Also, liberal lending practices coupled with insufficient credit information has contributed to the deterioration in the bank's asset quality. Other problems included

overlending on specialized collateral or to customers unable to finance the debt, and the lack of an effective overall compliance program.

An Agreement required the board to conduct a study of management and board supervision; eliminate criticized assets; obtain current credit information and correct collateral exceptions, perfecting collateral where necessary; establish a loan review system; maintain an adequate level of the allowance for loan and lease losses; develop and implement a loan policy; develop and implement an overdraft policy; revise the bank investment policy; develop and implement a consumer compliance program; correct violations of law and implement appropriate procedures to prevent future violations; and maintain capital at or above a predetermined level.

356. Bank with assets of \$25 to \$50 million

An examination disclosed continued deterioration in the bank's condition. Management and board supervision were considered inadequate; capital was strained in light of the bank's earnings and overall condition; reports of condition and income were inaccurately filed and published; fidelity insurance had been cancelled; the bank's loan review system was considered inadequate; the bank's investment policy was deficient; numerous internal control deficiencies were cited; violations of the Bank Secrecy Act were disclosed; and the level of brokered deposits had increased.

An amended Order to Cease and Desist required the bank to hire an outside management consultant to study the bank's management; increase capital; hire a new chief executive officer; refile an amended report of condition; obtain fidelity coverage; develop an adequate loan review system; revise the bank's investment policy; remedy internal control deficiencies and violations of the Bank Secrecy Act; and cease accepting brokered deposits.

357. Bank with assets of \$50 to \$100 million

An examination disclosed significant deterioration in the bank's condition. The volume of classified assets had increased to an excessive level due to ineffective loan supervision. The allowance for loan and lease losses was inadequate and a provision was made during the examination. Loan policies and procedures were ineffective or unenforced; loans were not supported by current credit information; and funds management procedures were unsatisfactory. The level of capital was considered inadequate and earnings were poor. Violations of law were found, including trust department violations and insider related activity.

An Order to Cease and Desist required the bank to develop a written program to remove each criticized asset from that status; certify the reasons for any additional extensions of credit to criticized borrowers; establish procedures to ensure that an adequate allowance for loan and lease losses is maintained; develop and strengthen collection efforts; develop a written loan policy, a loan review system, a nonaccrual loan policy, a funds management policy, a profit plan, and a 3-year capital program; correct violations of law; restrict dividends; and make loan participations only in accordance with BC 181. The trust department violations were to be corrected and reimbursement of accounts made where necessary.

358. Bank with assets of less than \$25 million

The overall condition of the bank had deteriorated since the last examination. The primary problems reported were an excessive level of classified assets, inadequate earnings, and a marginal capital base. Criticized assets increased significantly from already excessive levels, lax loan administration, and current management's ineffective efforts. Problems at the bank had been identified during an earlier examination and the bank was operating under an Agreement with which it had failed to comply.

An Order to Cease and Desist was issued. The contents of the Order were similar to the Agreement and required the bank to obtain current and satisfactory credit information; implement an effective loan review system; document reviews of the allowance for loan and lease losses; correct violations of law; develop a capital plan; and implement a management study.

359. Bank with assets of \$25 to \$50 million

An examination disclosed that ineffective loan supervision and overlending had resulted in asset quality deterioration. Heavy loan loss provisions had impacted earnings and high dividend payments reduced capital support.

An Agreement required the bank to develop a plan addressing criticized assets. Current credit information was to be obtained for all loans and the allowance for loan and lease losses reviewed periodically and maintained at an adequate level. The bank's loan review system was to be revised and an earnings plan developed. Dividends were reduced and the bank was to adopt a capital plan requiring the maintenance of capital at or above a predetermined level.

360. Bank with assets of \$25 to \$50 million

Significant deterioration in asset quality resulted in an inadequate allowance for loan and lease losses. Earn-

ings were low. The bank lacked a written funds management policy. A nonaccrual loan policy was needed. The allowance for loan and lease losses was inadequate and capital was marginal. An external CPA audit was needed and deficiencies in the bank's electronic data processing (EDP) operations were cited.

An Agreement required the bank to develop a program addressing the criticized assets; establish a nonaccrual loan policy and a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan which would require the bank to maintain capital at or above a minimum predetermined level; correct EDP deficiencies; and have an annual audit performed by a CPA.

361. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management was ineffectual. Earnings were weak. Bank operating policies, including the loan review system, nonaccrual policy and loan policy needed revision. Satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited. Collateral documentation exceptions existed. Capital was marginal.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system and lending policy; develop a nonaccrual policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; restrict dividends; and obtain current and satisfactory credit information for all loans.

362. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, loan policy and investment policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Capital was marginal.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system, lending policy, and investment policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital

plan requiring primary capital to be maintained at or above a predetermined level; and obtain current and satisfactory credit information for all loans.

363. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system and the nonaccrual policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including the need for a consumer compliance program. Collateral documentation exceptions existed.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system; develop a nonaccrual policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; and correct all violations of law including consumer violations.

364. Bank with assets of \$25 to \$50 million

An examination revealed marked deterioration in the quality of the bank's loan portfolio, inordinate credit information and collateral exceptions, liberal renewal policies, and insufficient management controls. While primary capital was barely adequate, the volume of assets subject to criticism remaining on the bank's books rendered capital a supervisory concern.

An Order to Cease and Desist required the bank to conduct an independent management study; implement a program to reduce its level of criticized assets; refrain from extending additional credit to any borrower whose extension of credit is criticized; correct all credit and collateral documentation exceptions and refrain from granting any new extensions of credit without obtaining and analyzing sufficient credit information; review and revise its lending policy; implement an internal loan review system; review and maintain an adequate allowance for loan and lease losses; monitor and restrict brokered deposits; correct violations of law; and maintain capital at an adequate level.

365. Bank with assets of less than \$25 million

An examination of the bank revealed deteriorated asset quality, poor loan documentation, failure to adhere to funds management policies, and poor operational procedures. Many of the bank's problems were attributed to shortcomings of prior ownership/management. The board of directors and prior man-

agement failed to take any action to correct numerous deficiencies noted in past examinations and previous holding company audits. The board also had failed to adopt adequate policies in all areas of the bank's operations. A portion of the portfolio was lacking current and satisfactory financial information and loans had collateral documentation exceptions. Year-to-date operations had resulted in a loss. In addition to the large volume of nonearning assets, the bank's earnings were hurt by high overhead expenses and amortization of intangibles. Liquidity was considered poor and the bank's system of internal controls had been virtually nonexistent. Numerous violations of law were also cited.

A Memorandum of Understanding required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank further agreed to take all steps necessary to obtain current and satisfactory credit information as well as correct each collateral exception. The bank was not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The bank was not to purchase any asset without complying with the provisions of Banking Circular 181. The written funds management policy was to be reviewed and revised. Liquidity would be reviewed on a monthly basis. A profit plan designed to improve and sustain bank earnings would be developed and violations of law corrected. The bank agreed to correct the internal control deficiencies.

366. Bank with assets of \$50 to \$100 million

Significant asset deterioration and poor earnings were the major problems confronting this institution. Its problems were caused by lax loan administration and compounded by costly fixed asset expansion and heavy dividend payout needed to service holding company debt. Loan related losses further affected earnings and capital.

An Agreement required the bank to correct violations of law; develop and implement a capital plan and profit plan; restrict dividends; refile and republish Call Reports to appropriately reflect losses; develop criticized asset plans and revise the loan review function; formalize an allowance for possible loan loss policy; correct credit and collateral exceptions; and review and revise the bank's funds management policy.

367. Bank with assets of \$100 to \$500 million

Substantial loan administration deficiencies were found in a recent examination. Classified assets were high and while the bank had not experienced heavy loan losses, the potential was present due to the

severity of classifications and poor loan documentation. The bank's organizational structure and lines of authority were very unclear, and the present staff was inadequate to properly administer the bank's credit and operational functions. Several violations of law and regulation were disclosed.

An Agreement required the bank to evaluate management; develop a program to eliminate criticized assets; develop a program to improve loan administration; obtain adequate credit information; adopt procedures to prevent violations of law and regulation; develop an internal audit program; correct internal control deficiencies; review and maintain an adequate allowance for loan and lease losses; and develop an internal loan review system.

368. Bank with assets of \$50 to \$100 million

An examination disclosed the following problems and deficiencies in the bank's operations: inadequate management and board supervision; an excessive volume of criticized assets; inadequate loan administration; an excessive volume of past-due loans; inadequate lending policies; an excessive volume of loans unsupported by satisfactory credit information; unwarranted concentrations in the loan portfolio; an inadequate loan review system; an inadequate allowance for loan and lease losses; insufficient earnings and capital; lack of an unacceptable strategic plan; an inadequate investment policy; failure to implement a funds management policy; inadequate liquidity; failure to manage other real estate owned (OREO) in accordance with law; failure to obtain up-to-date real estate appraisals; violations of law; Bank Secrecy Act violations; lack of an internal auditor; and internal control deficiencies.

An Agreement required a management study; action to eliminate criticized assets; improved loan administration; improved collection efforts; a revised lending policy; current and satisfactory credit information on all loans lacking such information; a program to reduce concentrations; loan review systems; an adequate allowance for loan and lease losses; a new budget; a strategic plan; increased capital and a new capital plan; payment of dividends in accordance with applicable law; a revised investment policy; implementation of a funds management policy; review of liquidity on regular basis; managing OREO in accordance with real estate law; correction of violations of law; correction of violations of the Bank Secrecy Act; appointment of an internal auditor; correction of internal control deficiencies; and no further acceptance of brokered deposits.

369. Bank with assets of \$25 to \$50 million

An examination disclosed the following problems and deficiencies in the bank's condition: inadequate capital; violations of 12 U.S.C. §371c; inadequate liquidity; insider abuse; and inaccurate call reports.

A temporary Order to Cease and Desist was issued which required the following: immediate injection of capital; payment of dividends only with the prior approval of the District Administrator; no further extensions of credit to insiders or their interests; no payments to the bank's holding company except in conformance with the Comptroller's Banking Circular 105; and immediate chargeoff of loans classified as loss; and refiling and republication of amended call reports.

370. Bank with assets of \$100 to \$500 million

An examination revealed an excessive level of criticized assets with an increased level of losses. Capital was inadequate. The bank had poor earnings and an inadequate allowance for loan and lease losses. Poor internal controls of trust operations and poor internal auditing of electronic data processing systems were noted. Rapid growth in bank size had been funded through the acquisition of brokered deposits. The management of other real estate owned and the acquisition of loan participations were of concern. Violations of law were cited.

An Agreement required the bank to form a compliance committee. The bank was required to maintain capital at a predesignated level and to revise its capital program. The declaration and payment of dividends were restricted. The bank was required to submit a management study report which had been prepared by an independent outside consultant. An adequate allowance for loan and lease losses was to be maintained. The bank was required to develop a profit plan and to eliminate the basis of criticism of assets. The acquisition of loan participations was restricted. The bank was required to develop a policy for the proper management of other real estate owned. Violations of law were to be corrected. The bank was required to review its liquidity on a monthly basis. The bank's reliance on brokered deposits was to be eliminated. A study of the condition of the bank's trust department was to be performed. A program to improve the bank's internal audit function of its electronic data processing systems was to be developed. The bank was required to submit monthly reports which would include month-end daily statements as well as year-to-date income and expense statements.

371. Bank with assets of \$100 to \$500 million

An examination disclosed a deterioration in the overall condition of the bank. The growth in classified assets

was attributable to rapid loan growth without an adequate lending staff, operating policies or procedures. Inadequate credit administration was demonstrated by the bank's failure to identify problem credits, establish repayment plans or obtain proper loan documentation. Credit and collateral exceptions were inordinately high. The allowance for loan and lease losses was inadequate. Violations of law were cited which had resulted in losses to the bank. Investment portfolio trading occurred without adequate policies and procedures.

An Agreement required the bank to correct all violations of law; reimburse the bank for all losses attributable to the violations of 12 U.S.C. §24 and §29; appoint a capable senior lending officer; employ an independent outside management consultant; adopt a program regarding criticized assets; obtain current and satisfactory credit information; obtain independent appraisals for all real estate loans; improve the bank's loan administration; review the allowance for loan and lease losses periodically; develop a comprehensive loan policy; ensure that other real estate owned is managed in accord with law and regulation; supervise and control nonaccrual loans; revise the investment policy; ensure that securities trading does not occur in the bank's investment portfolio; develop a funds management policy; develop a 3-year capital program; correct all violations of 31 C.F.R. §103; limit brokered deposits; and obtain an independent CPA audit of the bank.

372. Bank with assets of less than \$25 million

An examination disclosed a deterioration in asset quality, inadequate loan administration, and high loan delinquencies. There were high levels of nonaccruals, and credit and collateral exceptions. In addition, violations of law were cited and a compliance program was needed.

An Agreement required the bank to correct violations of law; conduct a management study; and address criticized assets. The bank was to obtain current and satisfactory credit information; review and revise its lending policy; define its trade area; and adopt a nonaccrual policy. Further, the bank was to revise the loan review system; design a program to improve collection efforts; develop a funds management policy; maintain primary capital at a predetermined level; notify the District Administrator prior to paying dividends; and develop a profit plan and a conflict of interest policy. A consumer compliance program was called for.

373. Bank with assets of \$25 to \$50 million

An examination disclosed continued deterioration in the bank's condition, including an inadequate level of

management and board supervision; violation of 12 U.S.C. §84; other violations of law; an excessive volume of criticized assets; a lack of current and satisfactory credit information; an inadequate loan administration program; an excessive level of past-due loans and volume of nonaccrual loans; an excessive amount of concentrations; an inadequate lending policy and loan review program; an insufficient allowance for loan and lease losses; an inadequate level of capital. The funds management policy and liquidity were inadequate. The investment policy and internal audit procedures were also deficient. Internal control deficiencies and an inadequate consumer compliance program were found.

An Order to Cease and Desist required the bank to conduct a study of current management; appoint a new chairman of the board; correct violations of 12 U.S.C. §84; reimburse the bank for loan losses or employ a special counsel to study such losses; correct other violations of law; conduct a study of conflict of interest within the bank; obtain prior board approval before entering transactions with affiliates; reduce the level of criticized assets; obtain current and satisfactory credit information on loans; review and revise the loan administration program; improve and strengthen collection efforts; implement policies governing nonaccrual loans; take action to reduce concentrations in the bank's loan portfolio; review and revise the lending policy; establish a loan review system; maintain the allowance for loan and lease losses at adequate levels; inject additional capital and develop a new capital program; pay dividends only in accordance with applicable law; develop a profit plan; revise the funds management policy; review liquidity on a regular basis; revise investment policy; accept no brokered deposits; develop internal audit procedures; correct internal control deficiencies; and develop a consumer compliance program.

374. Bank with assets of less than \$25 million

An examination of the bank showed continued deterioration in the bank's condition. Deteriorating trends were reflected in the lending area with classified assets increasing and an inadequate allowance for loan and lease losses. Operating losses were present and capital was inadequate. Violations of law were present as well as violations of an agreement. The bank's internal loan review system was ineffective and the bank had failed to formulate a budget.

An Order to Cease and Desist required adoption and implementation of a criticized asset program; adherence to a written lending policy; written policies with regard to nonaccrual loans; policies for a loan review system; correction of credit information deficiencies; a

written program to improve and strengthen collection efforts; and maintenance of an adequate allowance for loan and lease losses. Further, the Order required primary capital to be maintained at or above a specified minimum; no payment of dividends without prior approval of the District Administrator; development of a profit plan; an audit by an independent certified public accountant; correction of all violations of law; and an asset and liability management policy.

375. Bank with assets of less than \$25 million

An examination disclosed significant deterioration in the bank's condition. The number of violations of the Bank Secrecy Act had increased dramatically. In addition, criticized assets had increased. There was inadequate board supervision, poor earnings, inadequate capital, inadequate management and significant noncompliance with a prior Agreement. Capital problems had existed for approximately 2 years. Management in the bank changed three times in seven years. The loan review system and the allowances for loan and lease losses were inadequate.

An Agreement required the employment of an independent outside management consultant; correction of all violations of law; and a written program governing compliance with the Bank Secrecy Act. The bank was to develop a policy with regard to criticized assets; develop an internal loan review system; implement a written program to strengthen collection efforts; and not extend or renew credit unless it was in compliance with the bank's written loan policies. Further, the board was to take steps necessary to obtain current and satisfactory credit information; maintain primary capital at a predetermined level; not pay dividends without prior approval of the District Administrator; adopt a business plan; develop a written consumer compliance program; and not solicit brokered funds. The bank was to correct internal control deficiencies and obtain a certified audit.

376. Bank with assets of \$50 to \$100 million

An examination revealed inadequate management; inadequate lending practices; and excessive levels of criticized assets, past-due loans, nonaccrual loans, and credit and collateral exceptions. Loan administration and internal loan review were inadequate, as was the allowance for loan and lease losses. Concentrations of credit and funds management were of concern. Capital was inadequate, and earnings were poor. The bank lacked an adequate internal audit program and no external audits were performed. Internal control deficiencies were cited. The examination also noted possible insider abuse, primarily involving the bank's former president. Violations of law, including 12 U.S.C. §84, were cited.

An Order to Cease and Desist was issued requiring the appointment of a compliance committee and the employment of an independent outside management consultant. Further participation in the conduct of the bank's lending and other activities by the former president was severely limited. The bank's lending policy was to be revised. A program to improve the bank's loan administration was to be developed. The bank was required to reduce unwarranted concentrations of credit. An independent certified public accountant was to be employed to review all transactions on behalf of the former president and his various business interests and associations. The basis of criticism of assets was to be eliminated. Credit and collateral exceptions were to be corrected. A loan review system was to be developed. An adequate allowance for loan and lease losses was required. The bank was required to revise its funds management policy. The acquisition of brokered deposits was prohibited. The bank was required to achieve and maintain capital at a predesignated level and to develop a capital program. The declaration and payment of dividends was prohibited. A profit plan was to be developed. Collection efforts were to be strengthened. Greater supervision and control of nonaccrual assets was required. The bank was required to develop an internal audit program and to have independent certified public accountants perform external audits on an annual basis. Violations of 12 U.S.C. §84 and of other laws were to be corrected, as were internal control deficiencies.

377. Bank with assets of \$25 to \$50 million

An examination revealed seriously inadequate capital in light of the excessive level of assets classified as loss.

A temporary Order to Cease and Desist was issued requiring that the bank increase its capital and establish a line of credit with a Federal Reserve Bank in an amount sufficient to maintain adequate liquidity.

378. Bank with assets of \$25 to \$50 million

An examination disclosed continued deterioration in the bank's condition, including an inadequate level of management and board supervision; inadequate liquidity; an inordinately high level of brokered funds; an excessive volume of classified assets and of loans lacking current and satisfactory credit information; an excessive volume of nonaccrual loans of past due loans; an inadequate allowance for possible loan and lease losses; lending policy and loan review system; an inadequate funds management policy; violations of law; an inadequate level of capital; an inadequate audit procedures.

An Order to Cease and Desist required the bank to employ an independent outside management consultant; increase liquidity; cease accepting brokered funds; employ a new senior lending officer; take action to protect interest with regard to criticized assets; obtain current and satisfactory information on loans; implement policies and procedures governing nonaccrual loans; strengthen collection efforts; increase the allowance for loan and lease losses; review and revise its lending policy; establish a loan review system; develop a funds management policy; correct violations of law; increase capital and develop a new capital plan; pay dividends only in accordance with applicable laws; have independent certified public accountant perform an opinion audit; and develop an internal audit program.

379. Bank with assets of less than \$25 million

An examination of the bank revealed that its overall condition had deteriorated. Asset quality had eroded in all areas of the bank. After charge-offs and an additional capital injection, remaining classified assets still exceeded gross capital funds. Corrective efforts had been ineffective. Lending personnel continued to demonstrate collateral based lending practices with inadequate financial information to properly analyze cash flow. Management, including holding company personnel, had been slow to recognize the severity of problems and loss potential. The lending staff was not large enough and did not have the experience to handle the volume of problem loans. Several violations of lending limits were noted. All these loans were of poor quality, four of which had been identified as containing loss. Compliance procedures were inadequate. Overall management was unsatisfactory. The allowance for loan and lease losses was inadequate. Earnings were unsatisfactory. Capital was strained even after the injection. Liquidity and funds management were unsatisfactory as a result of a stale, unrealistic, and funds management policy that was not adhered to, a heavy volume of illiquid assets, and lack of evidence of analysis of funds management reports.

A Order to Cease and Desist required the bank to analyze management needs, and take appropriate action to ensure that each officer position is filled by a qualified individual. The bank was required to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank's loan administration was to be strengthened. Written policies and procedures concerning nonaccrual loans were called for. The internal loan review system was to be improved. The adequacy of the bank's allowance for loan and lease losses was to be maintained at an

adequate level. The funds management policy was to be revised and a 3-year capital plan developed, maintaining capital at or above a minimum ratio. Dividends were restricted. The bank was to correct violations of law and regulation, and to implement procedures to ensure that further violations do not occur.

380. Bank with assets of \$50 to \$100 million

The bank was operating under an Amended Agreement. A recent examination revealed improved levels of classified assets and a reduction of losses. Nevertheless, operating losses remained high as a result of heavy overhead expenses, weak interest margins, and large loan loss provisions. Primary capital had dropped. Breakdowns in procedures resulted in violations of the lending limits, insider laws, the currency transaction reporting requirements, and consumer regulations.

A new Agreement required the bank to achieve and maintain primary capital at a predetermined level; develop a profit plan; implement a program to eliminate criticized assets; adopt a written conflict of interest policy; obtain current credit information; conform to loan policies; maintain an independent loan review system; establish a program for maintenance of an adequate allowance for possible loan losses; correct violations of law, including particularly Regulation B violations and Bank Secrecy Act violations; implement a 3-year strategic plan; appoint a new chief executive officer; eliminate reliance on brokered funds; and establish a consumer compliance program.

381. Bank with assets of less than \$25 million

An examination of the bank disclosed a marked deterioration in the quality of the loan portfolio, an inadequate allowance for loan and lease losses and poor earnings. Classified assets had increased significantly between examinations and were the result of inadequate supervision, ineffective administration and failure to correct previously criticized credit practices. Earnings, which were already on a declining trend, were adversely affected by loan losses and additional provisions were required as a result of the examination.

An Agreement required the bank to appoint a compliance committee to monitor and ensure adherence to the Agreement; develop procedures to prevent violations of law; analyze the bank's management needs with emphasis placed upon the lending function; conduct quarterly reviews of the adequacy of the bank's allowance for loan and lease losses; revise its written lending policy; eliminate the grounds of criticism of each asset in excess of \$50,000 and cease

making loans to criticized borrowers; obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without both; implement a loan review system; develop and implement a funds management policy; develop a profit plan and budget; maintain primary capital at or above a predetermined level; develop a 3-year capital program; develop a policy to ensure proper handling of other real estate owned; and develop and implement a written electronic data processing audit system.

382. Bank with assets of less than \$25 million

An examination disclosed that the bank had serious problems in the operation of its trust department including lack of proper recordkeeping and compliance in general with 12 C.F.R. §9. Cash management practices, asset reviews and lack of use of sound and lawful fiduciary investment standards were cited. Trust fees had been waived and fee concessions granted to insiders. On the commercial side, the report cited the bank for certain violations of law, including 31 C.F.R. §103 and 12 U.S.C. §371c. Further, current and satisfactory credit information was lacking on many loan transactions and a funds management policy was needed.

An Agreement required the bank to resign from all trust powers except for land trusts or to hire a new trust officer. In any event, the bank was to have an audit of trust accounts, prohibit fee concessions to insiders and arrange for the bank to be repaid for past concession income which should have been collected from insiders. Violations of law were to be corrected, including 12 C.F.R. §103, and a conflict of interest policy devised and followed. Current and satisfactory credit information was to be obtained for all loans and a funds management policy adopted and followed.

383. Bank with assets of \$100 to \$500 million

An examination revealed the bank to be in financial difficulty and in need of infusion of capital. The bank was operating under the terms of a 2-year old Agreement and had substantially complied with the terms except the ones relating to its allowance for loan and lease losses provisions and loan charge-off provisions. The Agreement was deemed inadequate and in need of updating in order to address problems such as the bank's capital deficiency, credit exceptions, violations of law, and faulty internal loan review system, all of which were uncovered during the examination. Earnings were poor, and in light of the high level of volatile/uninsured deposits, liquidity was considered marginal. Supervision by the board and management was regarded as deficient and prior to the

issuance of the Order, a new chief executive officer was appointed.

An Order to Cease and Desist required the bank to review its management; develop a program to address the criticized assets; obtain current and satisfactory credit information for all loans cited in the examination; and revise its loan review system. Capital was to be raised and maintained at or above a predetermined level. The allowance for loan and lease losses was to be reviewed periodically, and loan loss and charge-off policies were to be reviewed and revised. Liquidity was to be reviewed monthly and the bank was required to ensure adequate sources of liquidity. The bank was to develop a profit plan to improve and sustain earnings; take all steps necessary to correct any violations; and not accept any brokered deposits or pay dividends without approval.

384. Bank with assets of \$100 to \$500 million

An examination disclosed continued deterioration in the bank's condition. The report identified numerous violations of law; an inadequate compliance management program; an excessive volume of criticized assets; an inadequate allowance for loan and lease losses; an excessive volume of loans without current and satisfactory credit information; an excessive volume of nonaccrual loans; a excessive volume of past-due loans; inadequate policies and procedures governing charge-offs in recognition of losses; insufficient capital; and use of brokered funds.

An Agreement required correction of violations of law; refiling and republishing call reports; adoption and implementation of a written compliance management program; action to reduce criticized assets; review of the adequacy of the allowance for loan and lease losses; reduction of volume of loans lacking current and satisfactory credit information; adoption of written policies and procedures governing nonaccrual loans; a written program to improve collection efforts; written policies and procedures governing charge-offs and recognition of losses; management of other real estate owned in accordance with applicable law; payment of dividends in accordance with applicable law; maintenance of adequate capital and a new 3-year capital plan; and adoption of a strategic plan.

386. Bank with assets of \$25 to \$50 million

An examination revealed that the bank's overall condition was unsatisfactory. Criticized assets were high as were documentation exceptions. The internal loan review system was ineffective and resulted in an inadequate allowance for loan and lease losses. Earnings were poor due to high provisions to the allowance and capital was strained by the level of criticized

assets. Numerous violations of law were noted. A consumer compliance program was lacking. The major cause of the decline in the bank's condition was management's failure to adhere to established bank policies and prudent lending practices. Supervision by the board over management was lax, and many areas were without established policies, or revisions were necessary.

An Agreement required the bank to establish a program addressing the criticized assets; conduct a study of management and board supervision; obtain current credit information on all loans; and perfect collateral. The bank agreed also to revise its loan policy and the loan review system; to maintain the allowance for loan and lease losses at an adequate level; to correct violations of law; and institute a consumer compliance program. The bank was to adopt a capital plan, funds management policy, and a profit plan.

387. Bank with assets of less than \$25 million

The bank's overall condition was unsatisfactory. Criticized assets were high. Credit and collateral documentation exceptions and past due loans were excessive. The allowance for loan and lease losses was inadequate, and the internal loan review was unsatisfactory. Earnings were poor due to high provision expenses to the allowance which had also reduced capital to an inadequate level. The major cause of the deteriorated condition was poor lending practices by management and lax supervision by the board. Collection efforts were weak and a funds management policy was needed. Violations of law were cited.

An Agreement required the bank to address the criticized assets; conduct a study of management and board supervision; obtain satisfactory credit information on all loans and perfect collateral as necessary; maintain the allowance for loan and lease losses at an adequate level; develop a funds management policy and strengthen collection efforts; revise the loan policy and the internal loan review system; develop a capital plan and a profit plan; and correct violations of law.

388. Bank with assets of less than \$25 million

An examination of the bank disclosed it to be in unsatisfactory condition. Most of the problems were directly attributed to weaknesses in the supervision by the board management. Numerous violations of law were cited. Asset quality had deteriorated. High levels of financial statement and collateral exceptions had resulted from lax loan administration. Collection efforts needed to be strengthened. Recoveries on charged-off loans were low. The allowance for loan and lease losses was inadequate and additional provisions were

required. The high provision expense prevented the bank from attaining a consistent level of profitability. The bank's liquidity was strained. Numerous internal control exceptions were cited. There were significant management deficiencies at the bank.

An Order to Cease and Desist required the bank to employ an independent outside management consultant to review and report on the management of the bank. The bank was ordered to take steps necessary to correct violations of law and regulation and not to pay any overdraft on behalf of any executive officer of the bank. The Order required the bank to review and revise its written conflict of interest policy and adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. Collateral exceptions were to be corrected. The bank was required to develop and implement a written program to improve the bank's loan administration and to review and revise the lending policy and establish a loan review system. The bank agreed to assess the adequacy of the allowance for loan and lease losses on a quarterly basis, at a minimum; supplement the allowance appropriately; and establish a program for the maintenance of an adequate allowance. The Order required the bank to correct the internal control deficiencies cited and to review and revise the investment policy and review the bank's liquidity on a monthly basis.

389. Bank with assets of less than \$25 million

An examination of the bank revealed a major problem was the ineffective supervision provided by management and the board. Virtually all of the deficiencies noted pertaining to policies, loan documentation, and operations had been noted previously, yet only minimal corrective action had been taken. Stronger loan supervision was warranted. Classified assets had risen. Financial statement and collateral exceptions were high. The bank's allowance for loan and lease losses was inadequate. Earnings were negative after provisions to the allowance were made and other losses were taken. The bank's interest margin had also fallen. Violations of law were cited. An adequate electronic data processing audit program had not been established by the board and a contingency plan for the data processing center had not been developed or tested.

An Agreement required the bank to analyze its management needs and submit a written report to the District Administrator. The bank was required to review and revise its written lending policy and to develop and implement a written program to improve loan administration. The collection policy was to be strengthened and the bank was to strengthen or

otherwise eliminate the grounds of criticism for all assets criticized. A loan review system was to be established. The adequacy of the bank's allowance for loan and lease losses would be reviewed periodically. Adequate documentation would be obtained for all outstanding loans and collateral exceptions corrected. The bank agreed to adopt a budget, to develop and implement an internal audit program, and to correct violations of law. The bank agreed to correct the internal control deficiencies.

390. Bank with assets of less than \$25 million

An examination revealed deterioration in the overall condition of the bank, especially in the loan portfolio. The deterioration was reflected primarily in the large volume of classified assets and credit exceptions. The decline in loan quality was primarily due to ineffective supervision and the failure to obtain current financial information. Earnings were poor due to large loan loss provisions. Two consumer violations were also noted as well as two other violations of law. Collections were weak. A senior lending officer was needed. Policies for other real estate owned and the loan review system were lacking. The allowance for loan and lease losses was inadequate.

An Agreement required the bank to correct all violations of law, rule and regulation and adopt procedures to prevent their recurrence; eliminate the grounds of criticism of each asset and cease making loans to borrowers holding criticized loans; develop a program to improve collections and reduce delinquent loans; obtain and maintain current and satisfactory credit information and collateral documentation and cease making loans without such documentation; revise its written lending policy; develop a written program to improve loan administration; employ a senior lending officer; develop an other real estate owned policy; review the sufficiency and competency of the present managerial staff; implement a monthly loan review program; conduct quarterly reviews of the adequacy of the bank's allowance for possible loan losses; and provide for an annual external audit with an opinion.

391. Bank with assets of \$25 to \$50 million

The bank had been operating under an Agreement primarily due to poor supervision of the loan portfolio. An examination found increased criticized assets, numerous new credit exceptions, poor earnings, several violations of law and continued liberal renewal practices which have understated delinquencies and nonearning assets.

An amended Agreement required an independent external management study; written policies and procedures for supervising and controlling nonaccrual

loans; development of a profit plan to improve and sustain earnings; acquisition of current and satisfactory credit information; and the development of a written policy under which renewals may be approved.

392. Bank with assets of less than \$25 million

An examination revealed an excessive level of criticized assets. Weak board supervision and poor loan administration were evident in view of recurring criticisms. Funds management practices were deficient. Capital was inadequate. Earnings had declined from prior years due to declining interest margins and the overhead associated with a new branch. Recurring violations of law were noted as were a poor internal audit, a poor internal loan review system and various policy inadequacies. Further, transactions with an affiliate company owned by the president were deemed to be improper. Interest had been accrued contrary to call report instructions. Collections were weak. The allowance for loan and lease losses was inadequate.

An Agreement required the bank to ensure that a bank officer has full authority and responsibility to operate the bank in the absence of the chief executive officer. All violations of law were to be corrected. The bank was to be reimbursed for the fair market value for space leased to a nonbank affiliate and for bank personnel utilized. A program was to be devised to strengthen criticized assets and revise the written lending policy. All interest accrued contrary to call report instructions must be reversed or charged off and a written program to strengthen collection efforts must be developed. The board was also required to establish a loan review system and correct all credit information exceptions. The adequacy of the allowance for loan and lease losses was to be reviewed quarterly. An investment policy, a written funds management policy and a profit plan were to be developed. Primary capital was to be maintained at or above a predetermined level.

393. Bank with assets of \$50 to \$100 million

An examination revealed excessive deterioration in asset quality, increased loan losses and declining earnings performance. Earnings performance had been adversely impacted by provisions required to replenish the allowance for loan and lease losses and weak net interest margin, resulting from increased levels of nonperforming assets. Weak supervision by the board and management was considered the primary reason for the bank's problems. Also disclosed were nonadherence to bank policy, inadequate management reporting systems, and a lack of formalized

forward planning and budgeting process. Violations of law were found in the trust department.

An Agreement required the bank to have a consultant perform an evaluation of present management; eliminate the grounds of criticism of each asset and cease making loans to criticized borrowers without board certification; adopt and implement a program to control delinquency and improve recovery levels; maintain a adequate allowance for loan and lease losses; correct all credit and collateral exceptions; obtain and analyze current and satisfactory credit information prior to extending credit in any form; establish an adequate internal loan review system; and correct trust deficiencies and violations of law. In addition, the bank was to develop and implement an earnings and budget plan; a capital program to ensure that primary capital was maintained at least at a predetermined level; and develop a written funds management policy.

394. Bank with assets of less than \$25 million

An examination disclosed serious deterioration in asset quality due to poor supervision of the lending function. Deficiencies in liquidity, earnings, and internal operations were also noted. Funds management practices were inadequate. Supervision by management of the internal affairs of the bank was weak as evidenced by recurring violations of law, inadequate audit coverage, internal deficiencies, poor reporting systems and several policy inadequacies. The correspondent relationship with an affiliated bank and insider transactions with an affiliated company, owned by the bank's president, were deemed improper and restitution was requested.

An Agreement required the bank to correct all violations of law and establish a program to protect and strengthen each criticized asset. The written lending policy was to be reviewed to address deficiencies. The bank was required to correct credit exceptions and not make or renew lines of credit without adequate credit information. A written program to strengthen collection efforts was to be prepared in addition to a loan review system. The bank was required to review the adequacy of the allowance for loan and lease losses and maintain an adequate allowance. The bank was required to reduce correspondent balances with the affiliate to a level commensurate with account activity. The investment policy was to be revised, measures were required to strengthen liquidity and a written funds management policy was to be prepared. Primary capital was to be maintained at or above a specified level, a program to strengthen internal controls prepared, and the bank reimbursed for the fair market value for space leased

to an affiliated company and for the company's use of bank personnel

395. Bank with assets of \$25 to \$50 million

An examination revealed that lack of adequate board and management supervision and administration had resulted in a deteriorated asset quality. Loan documentation was poor and the allowance for loan and lease losses had not been maintained at an adequate level. Earnings were poor because of low net interest margins and high overhead expense. Capital was marginal and closer monitoring appeared necessary to maintain an adequate capital base given the other weaknesses in the bank.

An Agreement required the bank to address all criticized assets; conduct a study of management and board supervision; develop a profit plan and a funds management policy; and ensure capital is adequate. Violations of law were to be corrected; a loan review system devised; the allowance for loan and lease losses maintained at an adequate level; a consumer compliance program devised and implemented; internal controls augmented; a concentration of credit policy devised; and a profit plan developed.

396. Bank with assets of \$100 to \$500 million

Poor loan quality resulting from deficiencies in the approval and renewal processes led to a significant increase in classified assets. Losses seriously depleted the allowance for loan and lease losses, required a special provision expense to restore its adequacy. In addition to heavy expenses associated with deteriorating asset quality, high overhead expenses resulting from an extensive branch network impaired earnings. Capital was strained. Holding company debt servicing through the payment of dividends further aggravated the capital position. There were also numerous violations of the Bank Secrecy Act.

An Agreement required the bank to adopt and implement a written program to eliminate criticized assets; obtain current credit information and correct collateral exceptions; improve and strengthen collection efforts; adhere to the bank's loan policies; establish a loan review system; achieve and maintain a primary capital to total assets ratio at a predetermined level; restrict dividends; develop a budget; adopt and implement a strategic plan; update a management study done by an outside consultant; correct violations of the Bank Secrecy Act and other violations of law, implementing procedures to prevent future violations; and refrain from accepting any brokered deposits.

397. Bank with assets of less than \$25 million

The overall condition of the bank continued to decline as a result of numerous operational deficiencies attributed to lack of board and management supervision. In addition to weak supervision, significant deficiencies existed in the loan administration and funds management areas where policies and procedures were lacking. Internal and external audit coverage was unacceptable and internal controls were poor. The four most recent call reports contained material errors which required refiling and republishing. Problem loans had increased and loan losses had impaired earnings.

An Order to Cease and Desist required the bank to conduct an internal study of current management and board supervision; implement a program to eliminate criticized assets; review and revise the written loan policy; establish a loan review system; obtain current credit information on all cited loans and new loans; review the adequacy of the allowance for loan and lease losses; employ an independent certified public accountant to perform an audit; develop and implement an internal audit program; correct the internal control deficiencies cited; refile and republish amended call reports as directed; maintain capital at a predetermined level and develop a 3-year capital program; develop a budget; develop a written funds management policy; and correct all violations of law cited in Reports of Examination.

398. Bank with assets of \$25 to \$50 million

An examination of the bank disclosed that asset quality had deteriorated substantially as a result of weak loan administration. A high volume of credit and collateral exceptions, past-due and nonaccrual loans, and the necessity to make a significant transfer to the allowance for loan and lease losses were also cited. The loan policy did not address obtaining real estate appraisals, loans to insiders, and the capitalizing of unpaid interest. The allowance for loan and lease losses was inadequate. Earnings had been adversely affected by the deteriorating condition of the loan portfolio. Capital and liquidity levels were marginal. Several violations of law, rule and regulation were cited. The bank's audit program was considered marginal because of the limited scope of its external audit.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to take immediate steps to obtain financial information as well as collateral documentation. The bank was required to correct all collateral exceptions listed in the Report of Examination and agreed to refrain from extending

secured credit without obtaining, analyzing and perfecting collateral documentation on loans supported by collateral. The adequacy of the bank's allowance for loan and lease losses would be assessed periodically. The bank agreed to review and revise its written lending policy and correct violations of law and regulation. The bank agreed to develop and implement an internal audit program appropriate to the needs of the bank and to correct the internal control deficiencies.

399. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, nonaccrual policy and loan policy were lacking or in need of revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including violations of 12 U.S.C. §84. Collateral documentation exceptions existed. Capital was marginal. Earnings were low and internal controls and the internal audit program were deficient.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system and lending policy and develop a nonaccrual policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law including violations of 12 U.S.C. §84; restrict dividends without obtaining prior OCC approval, develop a profit plan; and correct internal controls and internal audit deficiencies. Amended call reports were also required.

400. Bank with assets of less than \$25 million

An examination of the bank revealed a significant and rapid decline in the bank's financial condition. Previously, the bank had entered into an Agreement with the OCC, but the agreement's effectiveness could not be assessed since it had only been in effect for 6 months. The examination uncovered problems in the areas of asset quality and earnings. Loans were found to lack proper documentation, financial information, formal repayment programs, and adequate collateral controls. Many classified loans were not shown on the bank's "problem loan" list and a provision was made to the allowance for loan and lease losses during the examination. Capital had deteriorated and was found to be marginally adequate. Liquidity was considered adequate but earnings were considered poor primarily due to the problems in the loan portfolio. Management consisted primarily of a president/chief execu-

tive officer who served as the sole lending officer. Management's supervisory efforts were inadequate. The examination also revealed that the president had committed and allowed many violations of 12 U.S.C. §375b and 12 C.F.R. §215.4.

An Order to Cease and Desist required the bank to select a capable chief executive officer, whose employment would be subject to OCC approval. The bank was to take immediate action to protect its interests with regard to assets criticized in the recent examination and implement a written program designed to improve and strengthen collection efforts. The bank's written lending policy was to be reviewed and revised and a written program was to be developed and implemented to improve the bank's loan administration. The bank was to immediately take all necessary steps to obtain current and satisfactory credit information on loans cited in the examination as well as establishing a loan review system to periodically review the bank's loan portfolio. The allowance for loan and lease losses was to be reviewed periodically and a program for the maintenance of an adequate allowance established. Primary capital was to be maintained at a predetermined level. The bank was to develop a profit plan and written funds management policy. The bank was prohibited from accepting brokered deposits, paying dividends except under certain circumstances, and making any payments to its parent holding company unless such payments were reviewed and found to be in the bank's best interest. An independent certified public accountant was to be engaged to perform an audit. The bank was to adopt a written comprehensive conflict of interest policy, implement a written overdraft policy, and take the necessary steps to correct all violations of law cited in the recent examination. Such steps were to include the payment of all overdraft charges not paid by officer and directors.

401. Bank with assets of less than \$25 million

An examination revealed the bank to be in financial difficulty and in need of an immediate infusion of capital. The bank was operating under the terms of a 1-year old Agreement and was found to be in noncompliance with the majority of its provisions. Problems cited in the examination included a high level of classified assets, an inadequate allowance for loan and lease losses, a high level of collateral documentation exceptions and loans lacking current credit information, and an ineffective internal loan review program. Capital was at a dangerously low level with poor earnings and strained liquidity. Numerous violations of consumer protection statutes were noted as well as violation of the Bank Secrecy Act and 12 U.S.C. §84 which would require director reimburse-

ment for losses. Internal control deficiencies were noted as well as the failure to follow an outside auditor's recommendations. Numerous instances of nonconformance with several policies including asset/liability management, investment, and consumer compliance were cited.

An Order to Cease and Desist required the bank to hire an outside consultant who was to review the bank's management and analyze responsibility for the 12 U.S.C. §84 violation. Capital was to be increased and the bank was not to pay dividends without prior approval of the OCC or accept brokered deposits. The bank was to review the adequacy of the allowance for loan and lease losses and establish a program for the maintenance of an adequate allowance; periodically review the loan portfolio to ensure that an effective loan review function exists; review and revise the bank's written lending policy; develop a written program to improve loan administration; develop a program addressing the criticized assets; and obtain current and satisfactory credit information for all loans. Liquidity was to be reviewed on a monthly basis, an earnings plan was to be developed, and a review and revision of the bank's asset/liability management policy was to be undertaken. Development of a 3-year business plan and effective written consumer compliance program was mandated as well. Internal control deficiencies were to be corrected, an annual independent audit including verification and the rendition of an opinion were to be accomplished as well as correction of violations of law. The Reports of Condition and Income were to be republished.

402. Bank with assets of \$25 to \$50 million

An examination revealed that the bank had an excessive amount of criticized assets. It had no loan review system and the allowance for loan and lease losses was not reviewed periodically and maintained at an adequate level. Current credit information was lacking on several loans and the bank's lending policy was in need of revision and updating. The bank did not have a funds management policy or a strategic plan.

An Agreement required the bank to develop a program addressing the criticized assets; establish a loan review system and a funds management policy; develop a strategic plan; review the allowance for loan and lease losses periodically and maintain it at an adequate level; obtain current credit information on all loans; and revise the lending policy.

403. Bank with assets of \$25 to \$50 million

An examination disclosed an excess of criticized assets caused primarily by inadequate management and supervision by the board of directors. The bank

had not obtained satisfactory credit information on all loans and collateral documentation was not perfected or obtained in many instances. The bank had no loan review system and the lending policy needed revision. Collection efforts were weak and no policy or procedures existed controlling nonaccrual loans. The allowance for loan and lease losses was inadequate and earnings were down. Capital was marginal. The bank had no investment policy and its funds management policy needed revision. Violations of laws were cited and the internal audit function was inadequate.

An Agreement required the bank to establish a program addressing criticized assets and conduct a study of management and board supervision. Current credit information was to be obtained for all loans and collateral documentation obtained and perfected. Collection efforts were to be strengthened and a loan review system established. Lending policy was to be revised and a nonaccrual policy developed. The allowance for loan and lease losses was to be maintained at an adequate level, an earnings and profit plan developed, a capital plan established to maintain primary capital at or above a certain level, an investment policy established, the funds management policy revised, an internal audit program updated and violations of law corrected.

404. Bank with assets of \$25 to \$50 million

An examination revealed an excess of criticized assets. The bank had no loan review system and its lending policy needed revision. The bank's loan administration was deficient in that several loans had been granted without current and satisfactory credit information and collateral documentation was not perfected or missing in several cases. The allowance for loan and lease losses was not maintained at an adequate level and there was no policy governing nonaccruals. Capital was marginal and there was no established internal audit.

An Agreement required the bank to develop a program addressing the criticized assets; correct loan administration deficiencies; maintain the allowance for loan and lease losses at an adequate level; develop a nonaccrual policy; develop a capital plan to maintain capital at or above a predetermined level; and establish an internal audit program.

405. Bank with assets of \$50 to \$100 million

An examination of the bank revealed it to be in an unsatisfactory condition. Asset quality had deteriorated substantially. Weak loan administration was evident by the extremely high level of financial statement and collateral exceptions. The allowance for loan and lease losses was insufficient to cover losses and a

special provision was required. Earnings had been adversely impacted by the poor quality of the bank's assets. Several violations of law were cited.

An Agreement required the bank to adopt and implement a written program designed to collect, strengthen or otherwise eliminate the grounds of criticism for all assets criticized. The bank agreed to obtain financial information as well as collateral documentation. It further agreed not to extend credit without obtaining and analyzing financial information and, where applicable, collateral documentation. The adequacy of the bank's allowance for loan and lease losses was to be reviewed periodically. Dividends were to be restricted. The bank agreed to develop a 3-year capital plan and to take steps necessary to correct violations of law and regulation.

406. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, needed revision, and the allowance for loan and lease losses was not maintained at an adequate level. Collections were weak. Capital was marginal and earnings were down. Internal control deficiencies were cited and a consumer compliance program was needed.

An Order to Cease and Desist required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system; review the allowance for loan and lease losses periodically and maintain it at an adequate level; and develop a capital plan requiring primary capital to be maintained at or above a predetermined level. A profit plan was called for and internal control deficiencies were to be corrected. A consumer compliance program was required.

407. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system and funds management policy, were lacking or needed revision. The allowance for loan and lease losses was not maintained at an adequate level. Concentrations of credit existed unmonitored, and the bank had no budgeting process.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system; devise a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or

above a predetermined level; develop a program to monitor concentrations of credit; and develop a budget for current and future years.

408. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Bank operating policies, including the loan review system and loan policy, were lacking. The allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including violations of 12 U.S.C. §371c involving participations with an affiliate. Capital was marginal.

An Agreement required the bank to develop a program addressing the criticized assets; review and revise its loan review system and lending policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law including §371c; limit purchase of participations from the affiliate; and establish a business plan.

409. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Bank operating policies, including the loan review system and nonaccrual policy, needed revision. The allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited.

An Agreement required the bank to develop a program addressing the criticized assets; review and revise its loan review system and develop a nonaccrual policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; and correct all violations of law.

410. Bank with assets of less than \$25 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system and loan policy, needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses were not maintained at an adequate level. Violations of law were cited. Collateral documentation exceptions existed. Capital was marginal. The bank was operating without a full time chief executive officer and a senior lending officer was needed. Recent call reports needed to be amended, an earnings plan was needed. Internal control deficiencies were cited and liquidity was marginal.

An Order to Cease and Desist required the bank to

develop a program addressing the criticized assets; conduct a management study; appoint a full time chief executive officer and senior lending officer; review and revise its loan review system and lending policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; restrict dividends; strengthen the collections policy; file call reports accurately; devise an earnings plan; correct internal control deficiencies; and devise a liquidity program to assure adequate liquidity.

411. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Bank operating policies, including the loan review system funds management policy and loan policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited and collateral documentation exceptions existed. Capital was marginal. The internal audit program was ineffective. The bank's handling of other real estate owned needed to be addressed in a written policy directing compliance with regulation.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system, lending policy, and funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law including citations on other real estate owned and develop a program to deal with it; and develop an internal audit program.

412. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management and board supervision were ineffectual. Bank operating policies, including a funds management policy, nonaccrual policy and loan policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited. Collateral documentation exceptions existed. Capital was inadequate, an external audit was needed and earnings were low.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its lending

policy; develop a nonaccrual policy, an investment policy, and a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; maintain primary capital at or above a predetermined level; correct all violations of law; restrict dividends; devise an earnings plan; and have an external audit performed.

413. Bank with assets of \$25 to \$50 million

An examination revealed that management and board supervision were weak. Bank operating policies, including the loan review system, loan policy, and funds management policy, were lacking or needed revision. The allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including violations of law 12 U.S.C. §84. Collateral documentation exceptions existed. Liquidity was marginal. The bank had no strategic plan governing future operations.

An Agreement required the bank to conduct a management study; review and revise its loan review system and lending policy; develop a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; correct all violations of law, including the 12 U.S.C. §84 violation; restrict dividends; develop a strategic plan; and address the liquidity problems.

414. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, loan policy, and funds management policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited, including the need for a consumer compliance program. Collateral documentation exceptions existed. Capital was marginal. Internal controls and the internal audit program were lacking. A profit plan was needed and concentrations of credit existed without a formal program to monitor them.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system and lending policy; develop a funds management policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; develop a consumer compliance program; address concentrations of credit; develop the internal audit program and ad-

dress the internal control deficiencies; develop a profit plan; and restrict dividends.

415. Bank with assets of \$25 to \$50 million

An examination revealed excessive criticized assets. Management was ineffectual. Bank operating policies, including the loan review system, nonaccrual policy and loan policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Violations of law were cited. Collections were weak and collateral documentation exceptions existed. Capital was marginal. A new senior lending officer was needed. Internal controls and the internal audit program were deficient. Concentrations of credit were found. A profit plan was needed as earnings were low.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system and lending policy; develop a nonaccrual policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; appoint a new senior lending officer; correct internal control and internal audit deficiencies; develop a profit plan; and obtain current and satisfactory credit information on all loans and perfect collateral as necessary.

416. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management and board supervision were ineffectual. Bank operating policies, including the loan review system and loan policy, were lacking or needed revision. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses were not maintained at an adequate level. Violations of law were cited. Collateral documentation exceptions were noted. Capital was marginal. Earnings were low. Concentrations of credit were found.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management and board supervision study; review and revise its loan review system and lending policy; review the allowance for loan and lease losses periodically and maintain it at an adequate level; develop a capital plan requiring primary capital to be maintained at or above a predetermined level; correct all violations of law; develop a policy addressing the concentrations of credit; and devise a profit plan.

417. Bank with assets of \$100 to \$500 million

An examination revealed that bank had extended loans in excess of the bank's lending limit under 12 U.S.C. §84 to one individual. These loans had resulted in loss to the bank.

An Agreement required the bank to seek reimbursement for all loss to the bank and to correct violation of 12 U.S.C. §84. The board of directors was required to reimburse the bank for such losses.

418. Bank with assets of \$50 to \$100 million

An examination revealed excessive criticized assets. Management and board supervision were ineffectual. The bank needed a senior lending officer. The loan review system was lacking. Current and satisfactory credit information was lacking on many loans and the allowance for loan and lease losses was not maintained at an adequate level. Collateral efforts were weak. Violations of law were cited.

An Agreement required the bank to develop a program addressing the criticized assets; conduct a management study; review and revise its loan review system; review the allowance for loan and lease losses periodically and maintain it at an adequate level; correct violations of law; appoint a senior lending officer; strengthen collection efforts; and perfect collateral on all secured loans.

419. Bank with assets of less than \$25 million

An examination revealed that management and board supervision were ineffectual. Bank operating policies, including a securities trading policy, funds management policy and investment policy, were lacking or needed revision. Violations of law were cited, including violations of 12 U.S.C. §375(b). Excessive fees were apparently being paid to insiders and trading in the investment portfolio was reported.

An Agreement required the bank to conduct a management study; develop a trading policy, an investment policy, and a funds management policy; correct all violations of law including the 12 U.S.C. §375(b) violation; establish an internal audit; and have a CPA review the fees paid to insiders.

Civil Money Penalties

1. Bank with assets of \$100 to \$500 million

An examination revealed that significant irregularities in the bank's operations centered around the role of the chairman of the board in the bank's extension of credit to a life insurance company. The chairman caused an unauthorized loan by the bank of \$900,000

to an affiliate credit life insurance company which had been incorporated by the chairman.

Criminal referrals were made to the Department of Justice and to the state district attorney's office. A Civil Money Penalty was assessed against the former chairman who agreed to pay \$100,000 and to reimburse the bank in the amount of \$153,000 for certain losses incurred in connection with this extension of credit. Finally, the former chairman agreed to release all rights to contracted consulting fees in the amount of \$262,500.

2. Bank with assets of \$100 to \$500 million

An examination revealed violations of 12 U.S.C. §375a and 12 C.F.R. §§215.4 and 215.5 (c) (3) by the bank's vice president, who derived personal benefit from the credit extended to him on terms which were preferential and exceeded the statutory limit.

A Civil Money Penalty of \$2,000 was assessed against the vice president of the bank as the violations appeared to be intentional and he benefitted from the violations.

3. Bank with assets of \$25 to \$50 million

An examination revealed that seven individuals, directors of the bank at various relevant times, were allegedly involved in a lending scheme in which the bank would finance the purchase of much of the stock of a holding company being formed to own the bank. The stock was being sold to the public and bank-funded purchases were not disclosed. The allegations were that the total amount loaned by the bank for this common purpose was in excess of the bank's lending limit. Allegedly, borrowers were protected from loss with buy-back arrangements entered into by the ring leader on behalf of the holding company. Eventually the scheme collapsed. Public sale of the stock was halted and the borrowers defaulted on the loans. The bank lost a large amount of money. Recovery is being sought through private litigation.

Civil Money Penalties were assessed against the seven directors. Five of the directors paid penalties of \$1,500 each. One director paid \$5,000 and executed an agreement to stay out of banking, and the seventh director executed an agreement to stay out of banking.

4. Bank with assets of \$100 to \$500 million

An examination revealed numerous deficiencies in the bank's overall operations. In addition, the examination cited 13 violations of 12 U.S.C. §84, many of which resulted in loss to the bank.

Civil Money Penalties were issued against the bank's former president, former vice president, and the board of directors. The bank's former president agreed to pay a civil money penalty of \$10,000 and has also agreed not to participate in the activities of any federally insured financial institution without the prior written consent of the appropriate regulator. The former vice president agreed to pay a civil money penalty of \$2,500 and has also agreed not to participate in the affairs of any federally insured financial institution without the prior written consent of the appropriate regulator. Finally, the remaining directors agreed to a penalty of \$1,000 and agreed not to participate in any federally insured financial institution without the prior written consent of the appropriate regulator.

5. Bank with assets of \$50 to \$100 million

An examination revealed violations of 12 U.S.C. §375a and 12 C.F.R. §215 involving loans which were preferential and in excess of the statutory limit on loans to executive officers.

A Civil Money Penalty of \$2,000 was assessed against the officer who received financial benefit as a result of the preferential treatment. In addition, supervisory letters were sent to each member of the board of directors.

6. Bank with assets of \$50 to \$100 million

An examination of the bank revealed violations of 12 U.S.C. §375a and 12 C.F.R. §215. The violations involved loans which were preferential and in excess of the statutory limit to the bank's chief executive officer (CEO). The CEO received financial benefit from the violations.

A Civil Money Penalty of \$7,500 was assessed against the CEO. In addition, supervisory letters were sent to each member of the board of directors.

7. Bank with assets of less than \$25 million

An examination found that the bank's chairman of the board participated in the bank's extension of credit in the amount of \$18,500 to a borrower who used it to pay an overdraft at an affiliate of the bank. At the time of this transaction, the chairman of the board was also the president of the affiliated bank. This extension of credit was made while the affiliate was being examined. The borrower's loan would have been classified by OCC examiners if the chairman of the board had not arranged for this extension of credit.

A Civil Money Penalty in the amount of \$18,500 was assessed against the chairman of the board for his role in the violation of 12 U.S.C. §371c, resulting from an extension of credit to an affiliate on terms and

conditions not consistent with safe and sound banking practices. The chairman agreed to pay \$16,000 of the penalty to the bank in reimbursement for the \$18,500 loan. The chairman of the board is no longer affiliated with either bank involved.

8. Bank with assets of less than \$25 million

An examination revealed significant deterioration in the overall condition of the bank, primarily attributable to the unsafe and unsound practices and violations of law committed by the bank's chief executive officer. This officer approved or participated in 13 violations of 12 U.S.C. §84 which caused significant loss to the bank. In fact, one violation involved extensions of credit which were several times the bank's lending limit. These violations of 12 U.S.C. §84 were primarily responsible for the bank's insolvency.

During the examination, the OCC issued a Notice of Suspension against the bank's chief executive officer to remove him from any continued participation in the bank's affairs. At that time, the OCC also issued a Notice of Intention to Remove in order to effectively bar his participation in federally insured financial institutions in the future. Thereafter, the OCC issued a Notice of Assessment of Civil Money Penalty resulting from the chief executive officer's role in the violations of 12 U.S.C. §84. The chief executive officer entered into an agreement with the Comptroller's Office whereby he consented to the issuance of a Civil Money Penalty of \$100,000 and agreed not to participate in the affairs of any federally insured financial institution without the prior written consent of the appropriate regulator. The Comptroller, pursuant to the statutory requirements of 12 U.S.C. §93(b), modified the amount of the penalty in light of the chief executive officer's financial resources.

9. Bank with assets of more than \$1 billion

The vice president oversaw a department that was misused for another officer's personal benefit to the detriment of the bank. The vice president did not personally gain from misuse of bank resources, however, he was in charge of the department.

A Civil Money Penalty of \$5,000 was assessed against the vice president.

10. Bank with assets of \$25 to \$50 million

Successive examinations revealed lending limit violations on fourteen separate lines of credit. Half of the violations were caused by an erroneous calculation of the bank's lending limit by the new president. Despite the existence of an Agreement and later an Order to Cease and Desist, both of which mandated the cor-

rection of all violations of the banks limit and the prevention of future violations, subsequent examinations continued to reveal persistent and additional violations of the lending limit. New violations were generally the result of management errors in drawing up participations, the timing of sales of participations, or the applicability of combination rules.

A Civil Money Penalty of \$10,000 was assessed against the bank in light of the recurrent nature of the violations and the bank's slow responses in correcting and preventing existing and future violations, particularly considering the mandates of the Agreement and Order to Cease and Desist.

11. Bank with assets of less than \$25 million

The examination of the subject bank revealed four violations of 12 U.S.C. §84 and five violations of 12 U.S.C. §375b. The institution and directors involved had a history of violating each of these statutes. The directors had voluntarily made restitution to the bank for the preferential interest rates received as a result of the 12 U.S.C. §375b violations.

A Civil Money Penalty of \$5,000 was assessed against each of the three directors who approved the illegal extensions of credit. The voluntary reimbursement undertaken by the directors involved in the violations of 12 U.S.C. §375b kept the assessments against those individuals from being higher.

12. Bank with assets of \$25 to \$50 million

An examination revealed several substantial violations of the bank's lending limit under 12 U.S.C. §84. Two were continuing violations which had been cited in earlier examinations. Losses of about \$1 million were involved.

A Civil Money Penalty of \$5,000 was assessed against the former president of the bank for the violations of 12 U.S.C. §84. The individual was also sued by the bank to recover the losses. Six other members or former members of the bank's board of directors had civil money penalties assessed against them which are summarized elsewhere.

13. Bank with assets of less than \$25 million

An examination revealed violations of 12 U.S.C. §§84, 371(c), 375a and 375b and 12 C.F.R. 215. All of the lending limit violations involved entities in which one dominant individual, who was majority owner, president, chief executive officer and chairman of the board, had an interest. The violations of 12 U.S.C. §§371(c), 375a and 375b and 12 C.F.R. 215 also involved the same individual. Bank losses resulting

from these violations nearly caused the failure of the bank. Eighty-five percent of the loans classified doubtful or loss were obligations of the bank's president and his related interests.

A Civil Money Penalty of \$75,000 was assessed against the president. The president (who had stipulated to a lifetime removal from banking at the time the violations were discovered) was considered almost solely responsible for the violations.

14. Bank with assets of \$100 to \$500 million

The vice president of the bank had purchased securities for investment greater than 10 percent of the bank's capital and surplus, in violation of 12 U.S.C. §24(7). The vice president misrepresented to two board members that the OCC had approved their purchase of the securities by telephone. Another board-approved purchase was within the statutory limit. The vice president did not inform them of the full amount of securities that the bank was purchasing. Thus, the vice president concealed the true amount of one of the purchases from the board and in another instance misrepresented to the board that OCC approval had been given. The director did not gain from the purchase of the securities and the bank experienced no loss.

A Civil Money Penalty of \$10,000 was assessed against the vice president.

15. Bank with assets of more than \$1 billion

The vice president of a bank was in charge of a division which was used for the personal gain of another bank officer. The vice president was directly in charge of this division and personally supervised projects which resulted in personal gain to another bank officer.

A Civil Money Penalty of \$50,000 was issued against the vice president.

16. Bank with assets of less than \$25 million

Eleven violations of 12 U.S.C. §84 and two 12 U.S.C. §371c violations were uncovered during the examination. The gravity of the situation was aggravated by the bank's history of 12 U.S.C. §84 violations and the president majority owner's involvement in making excess loans.

A Civil Money Penalty of \$50,000 was assessed against the president/majority owner by default judgment.

17. Bank with assets of \$25 to \$50 million

An examination revealed numerous repeat violations of 12 U.S.C. §84 involving three different borrowing groups. These violations resulted in loss exceeding \$500,000, which was the principal cause for the bank's insolvency. The former vice president and senior loan officer was primarily responsible for these violations because he repeatedly and systematically failed to require proper loan documentation in the form of accurate financial statements, borrower histories, and credit reports, misrepresented that collateral had been pledged, extended credit against collateral with no value, and advanced loan proceeds in small amounts to different borrowers to escape scrutiny by the board of directors. Because of his extensive banking experience, his recurring pattern of granting loans in excess of the bank's lending limit was intentional or was committed with a willful or flagrant disregard of the law and of the consequences to the institution.

A Civil Money Penalty in the amount of \$25,000 was assessed against the former vice president and senior loan officer because of the consistent, intentional and flagrant nature of the violations.

18. Bank with assets of less than \$25 million

An examination of the bank disclosed continued unwillingness of the directors to comply with a cease and desist order. The gravity of the situation was aggravated by the dissension between the board over controlling stock ownership.

Civil Money Penalties of \$2,000 were assessed against two directors and \$1,500 against three directors.

19. Bank with assets of less than \$25 million

An examination of the bank disclosed continued unwillingness of the officers, directors and principal shareholder to comply with a cease and desist order. The gravity of the situation was exacerbated by the principal shareholder's actions which were in violation of established lending procedures.

Civil Money Penalties were assessed for \$4,000 against four directors and \$3,500 against one director.

20. Bank with assets of \$25 to \$50 million

An examination of the bank revealed that the board of directors had permitted the purchase of numerous loans that resulted in widespread violations of the bank's legal lending limit, 12 U.S.C. §84. The purchase of these loans occurred despite warnings by OCC examiners and resulted in a significant risk of substantial financial loss to the bank and was an

unsafe and unsound banking practice. The purchase of these loans also violated the administrative document under which the bank operated.

A Civil Money Penalty of \$40,000 was assessed against the chairman of the board for violations of 12 U.S.C. §84. A final assessment against a director was issued in the amount of \$1,000 for violations of 12 U.S.C. §84.

21. Bank with assets of \$50 to \$100 million

Violations of 12 U.S.C. §375b and 12 C.F.R. §215.4 were found. The bank had a history of allowing members of the board to have improper special overdraft privileges.

Three Civil Money Penalties of \$2,000 and six of \$1,000 were assessed against officers and directors of the bank.

22. Bank with assets of \$25 to \$50 million

An examination revealed several substantial violations of the bank's lending limit under 12 U.S.C. §84. Two continuing violations had been cited in earlier examinations. Losses of about \$1 million were involved.

Civil Money Penalties of \$1,500 were assessed against six members of the board of directors for violations of 12 U.S.C. §84. The former president of the bank was also assessed a penalty (summarized elsewhere) and litigation was initiated against him to recover the losses.

Capital Directive

1. Bank with assets of \$500 million to \$1 billion

The bank was under a formal agreement requiring, among other things, that the bank achieve and maintain a ratio of primary capital to total assets at or above a preestablished level. The bank failed to comply with this requirement.

A Capital Directive, enforceable in federal district court, was issued requiring that the bank achieve, and thereafter maintain, the primary capital level called for.

2. Bank with assets of \$25 to \$50 million

The bank had failed to maintain the primary capital to total assets ratio at the level required by the administrative document under which the bank was operating. In addition, the bank had submitted a capital plan which was viewed as inadequate to provide for the capital growth and the support necessary for the bank's future operations.

A Capital Directive required the board to achieve and maintain a sufficient primary capital to total assets ratio

as well as to submit an adequate written capital plan to achieve and maintain the proper capital ratio.

Suspensions

1. Bank with assets of \$100 to \$500 million

An examination of the bank indicated that a senior officer of the bank had breached his statutory and fiduciary responsibilities, authorized numerous unsafe and unsound banking practices and committed violations of law resulting in financial loss to the bank. The report of examination disclosed that the officer had authorized the repurchase of a loan participation in violation of the bank's legal lending limit, had misused the bank's general ledger account, reimbursed guarantors for payments of debts on which the guarantors were liable, authorized violations of 12 U.S.C. §84, and personally benefitted from violations of 12 U.S.C. §371c.

A Suspension was issued, removing the individual from his position as a senior officer of the bank and from his position as a member of the board of directors.

2. Bank with assets of \$25 to \$50 million

An examination of the bank revealed that the president of the bank had participated in and had failed to prevent the bank's purchase of numerous loans that resulted in widespread violations of the bank's legal lending limit, 12 U.S.C. §84. This purchase of loans occurred despite warnings from OCC examiners and resulted in an unsafe and unsound banking practice that subjected the bank to a significant risk of substantial financial loss. The purchase of loans also violated the administrative document under which the bank operated.

A Suspension was issued, removing the individual from the position of president as well as from the board of directors of the bank.

3. Bank with assets of \$25 to \$50 million

An examination revealed that the chairman of the board had authorized and directed the bank to purchase numerous loans that resulted in violations of the bank's legal lending limit, 12 U.S.C. §84. The purchase of these loans was an unsafe and unsound banking practice, subjected the bank to a significant risk of substantial financial loss and resulted in financial gain to the chairman. In addition, the purchase of these loans violated the provisions of the administrative document under which the bank operated.

A Suspension was issued, removing the chairman of the board from his position on the board of directors.

Agreements Removing Individuals

1. Bank with assets of \$100 to \$500 million

An examination revealed significant irregularities in the operations of the bank. The former chairman of the board had caused the bank to extend credit to the bank's life insurance company in which the chairman had an interest and which was affiliated with the bank. Losses had been incurred on the loan and it was not authorized by the board of directors in accordance with law.

An Agreement removing the individual from banking was obtained by the Comptroller's Office. Under the terms of the Agreement, the former chairman agreed not to serve as a director, officer or employee of any national bank without prior written consent of the OCC. The individual also was prohibited from becoming similarly involved with any federally regulated or insured financial institution without prior written consent of the institution's primary regulator.

2. Bank with assets of less than \$25 million

Examinations of two affiliated national banks revealed significant deterioration in their overall condition primarily attributable to the self-dealing conduct of one individual. At one bank, the individual served as a director and actively participated in the affairs of the bank. At the other institution, the individual participated in the affairs of the bank through both the directorate and management of the bank. The examinations revealed that the individual participated in numerous violations of 12 U.S.C. §84, 12 U.S.C. 371c, and 12 C.F.R. 215. The examinations also disclosed that the individual directed both banks to purchase poor quality participations from his other banks, as well as requiring the banks to extend credit to insiders in their related interest.

An Agreement removing the individual from banking required that the individual not serve as a director, officer or employee or participate in any manner in the conduct of the affairs of any federally insured financial institution without the prior written consent of the appropriate regulator. Furthermore, the individual agreed to irrevocably appoint a trustee acceptable to the District Administrator to vote any direct or beneficial interest in his ownership interest of the bank. Furthermore, the individual agreed to sell his interest in the bank within 1 year of the effective date of the Agreement.

3. Bank with assets of \$25 to \$50 million

As a director of the bank, this individual allegedly approved a group of loans for the purpose of having the borrowers make purchases of the stock of a holding company which was being formed to buy the bank. The total exceeded the bank's lending limit under 12 U.S.C. §84. Allegedly, the bank-financed purchases were kept from the public although a public offering of holding company stock was being attempted. When public sale of the stock was halted, the scheme collapsed and the borrowers defaulted. A private action to recover the losses has been instituted.

The individual executed an Agreement to stay out of national banks and other federally insured financial institutions without permission of the institution's primary regulatory agency.

4. Bank with assets of \$25 to \$50 million

It was alleged that a director approved a group of loans from the bank for the purpose of financing the purchase of a substantial amount of a stock offering of a holding company being formed to own the bank. When combined, the amount of the loans exceeded the bank's lending limit under 12 U.S.C. §84.

A Civil Money Penalty was assessed against the director and in addition to paying a penalty this individual executed an Agreement with the agency not to participate in the affairs of the bank without permission of the bank's primary federal regulatory agency. The prohibition extended to other federally insured financial institutions as well.

5. Bank with assets of \$50 to \$100 million

The vice chairman of the board/bank officer was instrumental in placing a large group of low quality assets in the bank through the purchase of participations. The chief executive officer and board chairman had been removed earlier for the same activities. One of the loans violated 12 U.S.C. §84 when combined with loans already in the bank and substantial losses had to be taken.

An Agreement required the director and officer to stay out of all forms of federally insured bank operations including credit unions.

6. Bank with assets of \$50 to \$100 million

An examination of the bank revealed that the board of directors had permitted the purchase of numerous loans that resulted in widespread violations of the bank's legal lending limit, 12 U.S.C. §84. The purchase of these loans occurred despite warnings by

OCC examiners and resulted in a significant risk of substantial financial loss to the bank and was an unsafe and unsound banking practice. The purchase of these loans also violated the administrative document under which the bank operated.

An Agreement removed four directors from the board and prohibited them from future participation in the affairs of any federally insured financial institution.

Orders of Removal

1. Bank with assets of \$25 to \$50 million

An examination revealed numerous repeat violations of 12 U.S.C. §84 involving three different borrowing groups. These violations resulted in losses exceeding \$500,000, which were the principal cause for the bank's insolvency. The former vice president and senior loan officer was primarily responsible for these violations because he repeatedly and systematically failed to require proper loan documentation in the form of accurate financial statements, borrower histories, and credit reports; misrepresented that collateral had been pledged; extended credit against collateral with no value; and advanced loan proceeds in small amounts to different borrowers to escape scrutiny by the board of directors. Because of his extensive banking experience, his recurring pattern of lending funds in excess of the banking lending limit was intentional and thus exhibited dishonesty, or was committed with a willful and flagrant disregard for the safety and soundness of the bank.

An Order of Removal removed the former vice president and senior loan officer from any and all offices that he held at the bank and required him to obtain the

prior written approval of the appropriate federal regulatory agency before he votes for a director, or before he serves or acts as a director, officer or employee of any bank.

2. Bank with assets of less than \$25 million

Eleven violations of 12 U.S.C. §84 and two violations of 12 U.S.C. 371c were uncovered during the examination. The gravity of the situation was aggravated by the bank's history of 12 U.S.C. §84 violations and the president/majority owner's involvement in making excess loans.

An Order of Removal issued by the Comptroller removed the president/majority owner after a default by that individual.

3. Bank with assets of more than \$1 billion

The vice president of a bank violated 12 U.S.C. §375a and 12 C.F.R. Part 215 by making nominee loans. The violations constituted breaches of the vice president's fiduciary duties and unsafe or unsound banking practices. The vice president used his position as an officer to obtain funds for himself and also violated the bank's loan policy. In addition, the vice president deceived customers as to the true nature of the loans and as to the bank's loan processes and procedures. In addition, he also engaged in check-kiting.

An Order of Removal was issued against the vice president after he waived his rights by responding to a Notice of Intent to Remove and asked for a hearing.

BLANK PAGE

Mergers—October 1 to December 31, 1985

Mergers consummated involving two or more operating banks.

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Norwest Capital Management Trust Co., Nebraska, Omaha, Nebraska		Purchase	156
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**FIRST AMERICAN NATIONAL BANK CLEVELAND,
Cleveland, Tennessee, and First American National Bank of Chattanooga, Chattanooga, Tennessee**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
First American National Bank of Chattanooga, Chattanooga, Tennessee (17936), with	\$ 37,543,000
and First American National Bank Cleveland, Cleveland, Tennessee (1666), which had	106,182,000
merged October 1, 1985, under charter and title of the latter. The merged bank at date of merger had	143,725,000

. . .

**FIRST NATIONAL BANK IN MANITOWOC,
Manitowoc, Wisconsin, and St. Nazianz State Bank, St. Nazianz, Wisconsin**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
St. Nazianz State Bank, St. Nazianz, Wisconsin, with	\$10,660,000
and First National Bank in Manitowoc, Manitowoc, Wisconsin (4975), which had	88,282,000
merged October 1, 1985, under charter and title of the latter. The merged bank at date of merger had	98,942,000

COMPTROLLER'S DECISION

On May 24, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. §1828(c), for prior authorization to merge St. Nazianz State Bank, St. Nazianz, Wisconsin (St. Nazianz), into First National Bank in Manitowoc, Manitowoc, Wisconsin (FNB). The application is based on an agreement finalized between St. Nazianz and FNB on May 7, 1985.

FNB, a wholly owned subsidiary of First Manitowoc Bancorp, Inc., had total assets of \$88.3 million and total deposits of \$76 million as of December 31, 1984. FNB operates one branch office located in Francis Creek, ten miles northwest of Manitowoc.

St. Nazianz had total assets of \$10.7 million and total deposits of \$9.7 million as of December 31, 1984, and operates only from its main office in St. Nazianz.

The relevant geographic market for this proposal consists of southwestern Manitowoc County. The two banks do not compete directly in the market; the nearest office of FNB is 16 miles northeast of St. Nazianz. Consequently, consummation of this proposal will merely replace one competitor with another and will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider . . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to

be served." The financial and managerial resources of both banks are acceptable and future prospects of the combined entity are good. St. Nazianz will be provided with expanded resources which will enable it to provide a wider range of banking services to better meet the needs and convenience of the St. Nazianz community. FNB will be in a better position to provide more effective competition in the southwest segment of Manitowoc County.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. §1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved subject to the condition noted in a separate communication to FNB.

August 29, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

**GREENVILLE NATIONAL BANK,
Greenville, Ohio, and Arcanum National Bank, Arcanum, Ohio**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Arcanum National Bank, Arcanum, Ohio (14188), with	\$ 29,031,000
was purchased October 1, 1985, by Greenville National Bank, Greenville, Ohio (13944), which had	80,927,000
After the purchase was effected, the receiving bank had	107,374,000

COMPTROLLER'S DECISION

On May 14, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization for Greenville National Bank, Greenville, Ohio (GNB), to purchase the assets and assume the liabilities of Arcanum National Bank, Arcanum, Ohio (ANB). The application is based on an agreement finalized between GNB and ANB on May 1, 1985.

GNB is a subsidiary of Greenville National Bancorp., Greenville, Ohio. GNB had total assets of \$81 million and total deposits of \$71 million as of December 31, 1984, and operated five offices located in Darke County.

ANB had total assets of \$29 million and total deposits of \$26 million as of December 31, 1984, and operated three offices in Darke County.

The relevant geographic market for this proposal is the southeastern portion of Darke County. Although GNB and ANB both compete in Darke County, ANB's primary market consists of the southeastern quarter of the county and GNB's primary market is the central portion of the county, reaching north to Ansonia and east to the Gettysburg/Bradford area. From this area, GNB acquired 73 percent of its total deposits and 82 percent of its market deposits. Conversely, GNB receives only 3.2 percent of its total deposits and 3.6 percent of its market deposits from ANB's primary market which consists of the towns of Arcanum, Castine, Gordon, Ithaca, Laura, Pittsburg and Potsdam. ANB's nearest office to GNB is its Pittsburg office which is located 8 miles south of GNB's Gettysburg Office. Competitive overlap between GNB and ANB is minimal and consummation of this proposal will not have a significantly adverse effect on

competition, with 13 depository institutions remaining competitive in Darke County.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. The acquisition will provide the combined bank with greater resources to more effectively meet the banking needs of the communities which it serves with an expanded and more efficient line of banking services and will enable GNB to provide more effective competition in the southeastern portion of Darke County.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

July 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

NORWEST BANK NEBRASKA NATIONAL ASSOCIATION,

Omaha, Nebraska, and Norwest Bank Grand Island National Association, Grand Island, Nebraska, and Norwest Bank Hastings National Association, Hastings, Nebraska, and Norwest Bank Norfolk National Association, Norfolk, Nebraska, and Norwest Bank Omaha West, Omaha, Nebraska, and Norwest Capital Management & Trust Co., Nebraska, Omaha, Nebraska

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Norwest Bank Grand Island National Association, Grand Island, Nebraska (2779) with	\$ 140,958,000
and Norwest Bank Hastings National Association, Hastings, Nebraska (13515), which had	182,943,000
and Norwest Bank Norfolk National Association, Norfolk, Nebraska (14339), which had	82,646,000
and Norwest Bank Omaha West, Omaha, Nebraska, which had	203,381,000
and Norwest Capital Management & Trust Co., Nebraska, Omaha, Nebraska, which had	5,690,000
and Norwest Bank Nebraska, National Association, Omaha, Nebraska (2978), which had	831,506,000
merged October 1, 1985, under charter and title of the latter. The merged bank at date of merger had	1,411,586,000

* * *

THE PARKERSBURG NATIONAL BANK,

Parkersburg, West Virginia, and United Bank, Inc., Parkersburg, West Virginia, and Union Central National Bank, Vienna, West Virginia

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
United Bank, Inc., Parkersburg, West Virginia, with	\$ 7,961,000
and Union Central National Bank, Vienna, West Virginia (16137), which had	9,784,000
and The Parkersburg National Bank, Parkersburg, West Virginia (1427), which had	302,966,000
merged October 1, 1985, under charter and title of the latter. The merged bank at date of merger had	315,996,000

* * *

TRUSTMARK NATIONAL BANK,

Jackson, Mississippi, and Brookhaven Bank and Trust Company, Brookhaven, Mississippi

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Brookhaven Bank and Trust Company, Brookhaven, Mississippi, with	\$ 127,469,000
was purchased October 1, 1985, by Trustmark National Bank, Jackson, Mississippi (10523) (formerly First National Bank of Jackson), which had	1,788,969,000
After the purchase was effected, the receiving bank had	1,904,982,000

COMPTROLLER'S DECISION

On October 31, 1984, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization for First National Bank of Jackson, Jackson, Mississippi (FNB), to purchase the assets and assume the liabilities of Brookhaven Bank and Trust Company, Brookhaven, Mississippi (BBTC). The application is based on an agreement finalized between FNB and BBTC on July 13, 1984.

FNB, a subsidiary of First Capital Corporation, is the second largest bank in the State of Mississippi with total assets of \$1.8 billion and total deposits of \$1.4 billion as of June 30, 1984. FNB operates 57 offices in 13 counties within a 100 mile radius of its home office.

BBTC, a wholly owned subsidiary of Brookhaven Financial Corporation, is the largest bank in Lincoln County with total assets of \$136 million and total deposits of \$122 million as of June 30, 1984. BBTC operates six offices (including one CBCT) in Lincoln County.

The relevant geographic market for this proposal is Brookhaven and surrounding areas of Lincoln County. Five of BBTC's offices are located in Brookhaven and one is in Bogue Chitto, ten miles to the south. BBTC's deposits are heavily concentrated in the areas immediately surrounding its offices in Lincoln County. Approximately 80 percent of BBTC's total deposits originate from the Brookhaven and Bogue Chitto Zip Code

areas. Two other banks and two savings and loan associations operate a total of seven offices within the county.

FNB operates branches in the counties that border Lincoln County to the north and south. To the south, FNB has an office in McComb, which is 15 miles from BBTC's branch in Bogue Chitto. Less than three percent of FNB's McComb branch deposits originate in Lincoln County. BBTC derives an insignificant volume of deposits (less than one percent of its total deposits) from the entire county where FNB's McComb branch is located. The competitive overlap between BBTC and FNB's office to the south is clearly minimal. Similarly, FNB's closest office to the north is nine miles from Brookhaven, in Wesson. FNB's Wesson branch derives only a nominal deposit volume, less than 6 percent of its total deposits, from the Brookhaven Zip Code area. Conversely, less than 5 percent of BBTC's deposits originate in the Wesson Zip Code area.

In *Southwest Mississippi Bank, v. FDIC*, 499F Supp. 1 (S.D. of Miss. 1979) the court analyzed demand deposit accounts derived by merging banks in the northern and southern halves of Pike County. In that case the acquiring bank derived 5.9 percent of its accounts from the northern half of the county, where the bulk of the target bank's accounts originated. The court held that this modest overlap was not sufficient to place the two banks in substantial effective competition in the northern half of the county. The court stated:

The Supreme Court rejected a county-wide geographic market when no more than 4.1 percent overlap was demonstrated and, likewise, a county-wide market was rejected in *United States v. First National Bancorporation, Inc.*, 329F Supp. 1003 (D.C. Colo. 1971), *affd.* 410 U.S. 577, 93S CT 1434, 35L Ed 2d 507 (1973), and in *United States v. Idaho First National Bank*, *Supra*, where overlaps of 6.6 percent and 5.5 percent, respectively, were found insufficient to constitute actual, substantial competition.

Applying this test to the present application, we find that the competitive overlap between BBTC and FNB's Wesson branch in the adjacent county is minimal. Consequently, the proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of

both banks are satisfactory and future prospects of the combined entity are good. The proposal will enable FNB to enter the Lincoln County market and provide BBTC's communities with an expanded and more efficient line of banking services and with greater resources to more effectively meet the banking needs of those communities.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

August 29, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

Applicant, the sole banking subsidiary of First Capital Corporation, is the second largest bank in the state of Mississippi. Applicant operates 55 offices within a 100-mile radius of its home office in Jackson.¹ As of June 30, 1984, Applicant had total assets of \$1.8 billion and total deposits of \$1.5 billion. As a result of the prior acquisition of Merchants and Planters Bank of Hazelhurst, Applicant has a branch office in the town of Wesson, nine miles north of Brookhaven. That office had total deposits of \$13.9 million as of June 30, 1984.

Bank, a subsidiary of Brookhaven Financial Corporation and the largest bank in Lincoln County, operates four offices in Brookhaven and one office in Bogue Chitto, a town ten miles south of Brookhaven. As of June 30, 1984, Bank had total assets of \$135.6 million and total deposits of \$122.4 million.

Applicant and Bank compete in the provision of various banking services for individuals and business organizations. "Consumer" (also known as "retail"), banking services are those which depository institu-

¹Mississippi state law permits banks to branch only within a 100-mile radius of their home offices. 1972 MS Code Ann. §81-7-7. At the time the preliminary application was filed, Applicant had two mergers pending involving the State Guaranty Bank of Magee and the Merchants and Planters Bank of Hazelhurst. These mergers were approved by the Comptroller of the Currency on August 30, 1984, and were consummated on September 29, 1984. We have taken these mergers into consideration in this analysis.

tions provide to individual customers. Among these services are transaction accounts, time and savings accounts, consumer loans, and residential mortgage loans. "Business" (also known as "wholesale") banking refers generally to those banking services which depository institutions provide to commercial business customers. Among these services are demand deposit accounts, time and savings accounts, and commercial loans.

For the reasons set forth below, we have concluded that the relevant geographic market for both consumer and business banking is Lincoln County plus the town of Wesson in Copiah County. Lincoln County (1980 pop. 30,174) is situated approximately 50 miles south of Jackson on Interstate 55 and U.S. 51, in the southwestern section of the State of Mississippi. The economy of Lincoln County and the adjacent counties of Copiah, Franklin, Lawrence and Pike, is primarily agricultural. The industry that does exist in the Lincoln County is found in Brookhaven (1980 pop. 10,800), the county seat. Brookhaven is the principal center of population and economic activity in Lincoln County with 15 manufacturing firms, five retail shopping centers, a hospital, a public library, a daily newspaper, and three AM radio stations.

Lincoln County has a stagnant economy and an unemployment rate of 14.7% as of October 1984.² Population in the county increased by 3,978 people or about 15% from 1970 to 1980, but personal income declined during that period.³ In constant dollars, sales exhibited an annual decline from 1979 through 1982,⁴ although there was a slight increase in 1983. With low income levels, stagnant sales, high unemployment, and a largely rural nature, Lincoln County does not appear to be attractive for *de novo* entry. In fact, the most recent *de novo* entry into the County occurred in October 1974.

Wesson is located approximately nine miles north of Brookhaven on U.S. Route 51, just across the county line in Copiah County. Wesson's 1980 population was 1,313. There are two manufacturing concerns, each employing over 100 persons, approximately 12 small service-oriented businesses, and a community college in Wesson.

Although the Journey to Work commuting statistics from the 1980 Census indicate that there is not much commuting between Lincoln and adjacent counties,⁵

interviews with local government officials, employers, and community organizations indicate that there is substantial travel between Brookhaven and Wesson. Traffic counts taken by the Mississippi Department of Highways also indicate that there is significant travel between Brookhaven and Wesson.⁶ Until six months ago, the town did not have a grocery store, and residents traveled to Brookhaven for most of their shopping needs. Wesson also has no hospital, dentists or lawyers. Many residents of Wesson regularly travel to Brookhaven for employment, shopping, medical treatment and entertainment. In addition, residents of Brookhaven and northern Lincoln County also commute to Wesson either for employment at the community college or the two manufacturing concerns and also to attend classes at the community college. Local businesses in Wesson advertise in the Brookhaven newspaper and on its radio stations.

Several towns in counties adjacent to Lincoln County also have offices of depository institutions that were not included in the relevant market because they do not appear to offer reasonably convenient alternatives to consumers and businesses in Lincoln County and Wesson. Applicant, in addition to its office in Wesson, has branch offices in Hazelhurst (the county seat of Copiah County, located 11 miles north of Wesson on U.S. 51 and Interstate 55), Georgetown (approximately 30 miles northeast of Brookhaven in Copiah County), and McComb (26 miles south of Brookhaven on U.S. 51 and Interstate 55). Hazelhurst has a small savings and loan office and one other commercial bank that also has an office in Wesson. McComb has one independent commercial bank and two savings and loans. Crystal Springs (1980 pop. 4,902), in the extreme north end of Copiah County (30 miles north of Brookhaven), has two small commercial bank offices and a branch office of the Hazelhurst thrift institution. Monticello (1980 pop. 1,834), 23 miles to the east of Brookhaven, in Lawrence County, has two bank offices. There is also a very small commercial bank with offices in the towns of Bude (1980 pop. 1,092) and Meadville (1980 pop. 575), in the Homochitto National Forest, 22 and 24 miles west of Brookhaven, respectively, in Franklin County.

Each of these communities is at least 20 miles from

Further, of the 8,843 workers living in Lincoln County, 5.4% or 476 work in Copiah County, 2.3% or 207 in Lawrence County, 3.9% or 348 in Pike County and none in Franklin County. Of the 8,014 workers living in Copiah County, 4.8% commute to Lincoln County. Because the area is rural, the statistics are not broken down beyond the county level.

⁶The traffic count between Brookhaven and Wesson was 2,550 cars per day on U.S. Route 51, compared with 1,780 cars between Wesson and Hazelhurst, and 1,050 cars between Brookhaven and McComb (about 26 miles south on U.S. Route 51). Interstate 55, which parallels U.S. Route 51, is not used for commuting purposes, according to the Mississippi Department of Highways.

²Data from Employment Security Commission of Mississippi.

³Application, p. 45.

⁴Application, p. 48.

⁵The data indicate that 8,239 individuals work in Lincoln County, of whom 6,815 live in Lincoln County, 193 in Franklin County, 204 in Lawrence County, 289 in Pike County and 387 in Copiah County.

Brookhaven. Most of these communities offer very little in the way of employment or shopping facilities beyond those in Brookhaven. Commuting statistics indicate very little commuting for employment from Lincoln County to Franklin, Lawrence and Pike Counties.⁷ In addition, small businesses in Lincoln County and Wesson, because of their size and added transaction costs, cannot realistically travel beyond the geographic market for many financial services. Because of the distances, the travel time involved, the lack of commuting and the lack of shopping facilities, we conclude that these adjacent county depository institutions are not reasonably convenient alternatives for financial services to consumers residing in Lincoln County and Wesson or to the small businesses in that area. Therefore, these counties have not been included in the market.

There are five commercial banks with 11 offices and two savings and loan associations with two offices in the market consisting of Lincoln County and Wesson. Three of the commercial banks, having eight offices,⁸ are located in Brookhaven. Bank also has a branch office in Bogue Chitto, approximately ten miles south of Brookhaven on U.S. Route 51. Both savings and loan associations' offices are situated in Brookhaven. The remaining two commercial banks in the geographic market, including Applicant, are located in Wesson.⁹

Using total deposits as a proxy for the determination of market share, the consumer banking market in Lincoln county and Wesson is highly concentrated with a

premerger four-firm concentration ratio ("CR4") of 93.3% and a Herfindahl-Hirschman Index ("HHI") of 3414. The proposed merger would combine the largest and fourth largest depository institutions (with market shares of 52.8% and 7.3%, respectively) resulting in the largest depository institution in the market with a 60.1% market share.¹⁰ The HHI would increase by 766 points to 4180 as a result of the merger and the CR4 would rise to 97.2%. Even if the geographic market is expanded to include McComb, Hazelhurst, Bude, Meadville, Monticello, Summit, Galiman, Georgetown and Crystal Springs in the counties adjacent to Lincoln County, the merger still would substantially increase concentration in an already highly concentrated market.¹¹

The business banking market also is highly concentrated. Using total deposits of commercial banks as a proxy for market share, the premerger HHI is 4602 and the CR4 is 98%. Applicant is the third largest commercial bank in the market with 8.8% and Bank is the largest commercial bank in the market with 63.8% of deposits. After the merger, the resulting institution will be the largest in the geographic market with a 72.6% share of the business banking market. The CR4 will be 100%, and the HHI will increase by 1119 points to 5721.¹²

Interviews with the two savings and loan associations in Brookhaven have established that neither has made, or has considered making, secured or unsecured commercial loans, other than some mortgage loans secured by commercial real estate. We have therefore concluded that the two savings and loans are not a practical source of financial services for businesses in the geographic market and we have not included them in the business banking market.¹³ However, even if the two savings and loan associations were included in the business banking market as full competitors, the HHI for business banking would increase by 766 points to 4180 as a result of the merger and the CR4 would rise to 97.2%.

⁷See note 6, *supra*.

⁸Bank owns four of the eight banking offices located in Brookhaven. Bank also has three on-premises and one off-premise ATMs in the geographic market.

⁹There is also a small consumer finance company in Brookhaven with approximately \$850,000 in currently outstanding loans. It makes only secured personal loans of \$500 to \$5000 usually at interest rates above those charged by the depository institutions. In addition, there is a Federal Land Bank office that makes first mortgage loans for the purchase and improvement of farm land, a Production Credit Association, a cooperative lending organization that makes short-term loans secured by crops, and an office of the Farmer's Home Administration (FmHA) that makes first and second mortgage loans to low income individuals in rural areas and secured loans to farmers with non-farm family income of under \$25,000 per annum. The FmHA office in Brookhaven has stated that very few farmers in that area are able to qualify for loans because of outside sources of income.

Because of their small size and specializations, these institutions are not fully competitive with commercial banks and savings and loan associations and including them in the market at 100 percent of their loans would significantly overstate their competitive impact. The relatively high HHI thresholds that the Department uses to screen bank mergers for anticompetitive effect implicitly recognize the competitive effect of such limited-purpose lender and other non-depository financial entities. A bank merger generally will not be challenged (absent other factors indicating an anticompetitive effect) unless the post-merger HHI is at least 1800 and the increase in the HHI caused by the merger is at least 200. In any event, even including those institutions in the market at 100 percent of their loans, the post-merger HHI would indicate an anticompetitive effect.

¹⁰Deposit and market share data as of June 30, 1983, for commercial banks and September 30, 1983 for savings and loan associations.

¹¹For example, even assuming a geographic market composed of Lincoln and Copiah Counties, and parts of Franklin, Lawrence and Pike Counties, for consumer banking, the post-merger Herfindahl-Hirschman Index would be 1820, an increase of 549. As a result, this proposed transaction would still have a significantly adverse effect on competition.

¹²Even if the geographic market was expanded to include institutions in counties adjacent to Lincoln County, the proposed merger would exceed our standards. The pre-merger HHI of 1635 would rise 742 points to 2377 and the pre-merger CR4 would increase to 85.1% from 76%. The merged institution would rank first with a 38.8% market share.

¹³Although the savings and loan associations were not assigned a discounted market share, the higher HHI thresholds we use in analyzing bank mergers implicitly account for the possibility that savings and loan associations that do not currently offer business loans may do so in the future.

Conclusion

The proposed acquisition would significantly increase concentration within the markets and would substantially lessen competition in the provision of both con-

sumer and business banking services by the elimination of a major direct competitor. Therefore, we conclude that the proposed merger would have a significantly adverse effect on competition.

COMMERCE BANK OF ST. JOSEPH, NATIONAL ASSOCIATION, St. Joseph, Missouri, and The First National Bank of St. Joseph, St. Joseph, Missouri

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The First National Bank of St. Joseph, St. Joseph, Missouri (4939), with	\$236,400,000
was purchased October 11, 1985, by Commerce Bank of St. Joseph, National Association, St. Joseph, Missouri	
(16947), which had:	72,800,000
After the purchase was effected, the receiving bank had	309,200,000

COMPTROLLER'S DECISION

On October 11, 1985, application was made to the Comptroller of the Currency to grant prior written approval for Commerce Bank of St. Joseph, National Association, St. Joseph, Missouri (Assuming Bank), to purchase certain assets and assume certain liabilities of The First National Bank of St. Joseph, St. Joseph, Missouri: (First). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of First. For reasons set forth below, the application is hereby approved and Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

First was chartered as a national bank on February 3, 1894, and at the close of business on October 4, 1985, had total assets of approximately \$148 million. The bank was declared insolvent by the Comptroller of the Currency on October 11, 1985, and was placed in the hands of the FDIC as receiver. The Comptroller of the Currency has now been requested to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of First.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary,

however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the St. Joseph community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the St. Joseph community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, Assuming Bank's application to assume certain liabilities and purchase certain assets of First, as set forth in the agreement, is approved. The Comptroller further finds that the failure of First requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

October 11, 1985

Due to the emergency nature of the situation a report from the Attorney General was not requested.

**UNITED NATIONAL BANK,
Sioux Falls, South Dakota, and SunBank of South Dakota, Sioux Falls, South Dakota**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
SunBank of South Dakota, Sioux Falls, South Dakota, with	\$18,260,000
was purchased October 11, 1985, by United National Bank, Sioux Falls, South Dakota (15639), which had	57,859,000
After the purchase was effected, the receiving bank had	74,459,000

COMPTROLLER'S DECISION

On April 3, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization for United National Bank, Sioux Falls, South Dakota (UNB), to purchase the assets and assume the liabilities of SunBank of South Dakota, Sioux Falls, South Dakota (SunBank). The application is based on an agreement finalized between UNB and SunBank on February 8, 1985.

UNB, a subsidiary of United National Corporation, Sioux Falls, South Dakota, is South Dakota's 20th largest banking organization with total assets of \$57.9 million and total deposits of \$48.2 million as of December 31, 1984. UNB operates five offices in three communities in Minnehaha, Yankton and Clay counties. In addition to this transaction UNB is also proposing to acquire the United National Bank, Watertown, South Dakota, and the Farmers State Bank, Kranzburg, South Dakota. Upon consummation of all three transactions UNB will become the ninth largest banking organization in the state.

SunBank had total assets of \$18.3 million and total deposits of \$16 million as of December 31, 1984, and operates one office in Sioux Falls in Minnehaha County.

SunBank's relevant geographic market consists of the City of Sioux Falls and the surrounding rural area of Minnehaha County and northern Lincoln County. UNB and SunBank both compete in the Sioux Falls market. However, UNB and SunBank are the seventh and eighth largest of 12 banks in the market area and would rank seventh with only 2 percent of the market's deposits after consummation of this proposal. The competitive impact on the market would be minimal and the market would remain highly competitive with

11 banking organizations. Consequently, consummation of this proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. The combined bank will be able to compete more effectively in the highly competitive Sioux Falls market and SunBank's customers will be provided a more complete line of banking services to fulfill their banking needs.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c) and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

July 24, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

THE FIRST NATIONAL BANK OF YORK,

York, Nebraska, and Blue River Bank, McCool Junction, Nebraska, and The First National Bank of Bradshaw, Bradshaw, Nebraska, and Farmers & Traders Bank, Waco, Nebraska

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Blue River Bank, McCool Junction, Nebraska, with	\$ 6,168,000
and The First National Bank of Bradshaw, Bradshaw, Nebraska (8097), which had	7,207,000
and Farmers & Traders Bank, Waco, Nebraska, which had	8,365,000
and The First National Bank of York, York, Nebraska (2683), which had	96,005,000
merged October 15, 1985, under charter and title of the latter. The merged bank at date of merger had	116,294,000

* * *

UNITED NATIONAL BANK,

Sioux Falls, South Dakota, and United National Bank, Watertown, South Dakota

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
United National Bank, Watertown, South Dakota (16470), with	\$21,626,000
and United National Bank, Sioux Falls, South Dakota (15639), which had	57,859,000
merged October 17, 1985, under the charter and title of the latter. The merged bank at date of merger had	77,834,000

COMPTROLLER'S DECISION

On April 3, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge United National Bank, Watertown, South Dakota (United), into United National Bank, Sioux Falls, South Dakota (UNB). The application is based on an agreement finalized between UNB and United on December 21, 1984.

UNB, a subsidiary of United National Corporation, Sioux Falls, South Dakota, is South Dakota's 20th largest banking organization with total assets of \$57.9 million and total deposits of \$48.2 million as of December 31, 1984. UNB operates five offices in three communities in Minnehaha, Yankton and Clay counties. In addition to this transaction UNB is also proposing to acquire the Farmers State Bank, Kranzburg, South Dakota, and the SunBank of South Dakota, Sioux Falls, South Dakota. Upon consummation of all three transactions UNB will become the ninth largest banking organization in the state.

United had total assets of \$21.6 million and total deposits of \$19.3 million as of December 31, 1984, and operates three offices in Codington and Hamlin counties. United is the third largest of eight banking institutions in the market with 8 percent of the total market deposits. UNB does not operate any offices in the Codington-Hamlin County market, its nearest office in Sioux Falls is approximately 76 miles southeast of United's office in Lake Norden. Consequently, consummation of this proposal alone will merely replace one competitor with another and will not have a significantly adverse effect on competition.

As noted previously, UNB is also proposing to acquire the Farmers State Bank in Kranzburg which serves the relevant market. While inclusion of this acquisition in the analysis reduces the number of market participants by one, UNB's combined market share would increase to approximately 10 percent and UNB would continue to rank third among the market's seven competitors. For this reason, consummation of both transactions would not have a significantly adverse effect on competition in the relevant market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. United will be provided with greater resources which will enable it to become a more significant competitor in the market and to provide a more complete range of banking services to meet the convenience and needs of the Watertown, Castewood and Lake Norden communities.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does

not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

July 24, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

NCNB NATIONAL BANK OF FLORIDA,

Tampa, Florida, and NCNB National Bank of Florida, Jay, Florida, and NCNB National Bank of Florida, Blountstown, Florida

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
NCNB National Bank of Florida, Tampa, Florida (17775), with	\$4,898,342,000
and NCNB National Bank of Florida, Jay, Florida (16012), which had	39,855,000
and NCNB National Bank of Florida, Blountstown, Florida (18140), which had	39,709,000
merged October 18, 1985, under charter and title of NCNB National Bank of Florida, Tampa (17775). The merged bank at date of merger had	4,961,361,000

* * *

GALLATIN NATIONAL BANK,

Uniontown, Pennsylvania, and Six Branches of Equibank, Latrobe, Pennsylvania

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Six Branches of Equibank, Latrobe, Pennsylvania, with	\$168,930,000
were purchased October 19, 1985, by Gallatin National Bank, Uniontown, Pennsylvania (5034), which had	837,959,000
After the purchase was effected, the receiving bank had	996,716,000

COMPTROLLER'S DECISION

On June 28, 1985 an application was filed with the Office of the Comptroller of the Currency by Gallatin National Bank, Uniontown, Pennsylvania (Gallatin), to purchase certain of the assets and assume certain of the liabilities of the Belle Vernon, California, Houston, Roscoe, Rostraver, and Smithton offices of Equibank, Latrobe, Pennsylvania (Equibank). The application is based upon a written agreement executed by the banks on May 2, 1985.

As of May 31, 1985, Gallatin, a wholly owned subsidiary of GNB Corporation, Uniontown, Pennsylvania held total deposits of \$728 million and operated 39 offices. Equibank, a subsidiary of Equimark Corporation, held total deposits of \$2.3 billion and operated 85 offices as of December 31, 1984. The six offices to be acquired held aggregate deposits of \$163.8 million.

There are two separate and distinct relevant geographic markets for this proposal: the area including and immediately surrounding Houston, where one of the six offices to be acquired is located and the

southern portions of Washington and Westmoreland counties and the northwestern portion of Fayette County, the area where the other five offices are located and derive the bulk of their deposits.

Gallatin does not operate in the Houston market. Therefore, consummation of this proposal would not have any adverse competitive effects upon competition in the Houston market.

In the second relevant market, Equibank and Gallatin are direct competitors. Within this market, seven banks operate 21 offices and hold total deposits of approximately \$543 million. Equibank and Gallatin rank third and fourth, respectively, in the market. After consummation of this proposal, Gallatin would assume the market share held by Equibank and would become the largest depository in the relevant market, with approximately 26 percent of local market deposits. While the proposed merger would eliminate direct competition between the two financial institutions, any adverse effects would be mitigated by the presence of

numerous banking alternatives, both in the relevant and adjacent markets, including the presence of two of the state's largest financial organizations.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served." Gallatin has the managerial and financial resources to absorb the subject branches without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that

the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

September 12, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

COMMONWEALTH BANK AND TRUST COMPANY, NATIONAL ASSOCIATION, Williamsport, Pennsylvania, and The First National Bank of Milton, Milton, Pennsylvania

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The First National Bank of Milton, Milton, Pennsylvania (253), with	\$ 30,902,000
and Commonwealth Bank and Trust Company, National Association, Williamsport, Pennsylvania (175), which had	596,353,000
merged October 19, 1985, under charter and title of the latter. The merged bank at date of merger had	626,983,000

COMPTROLLER'S DECISION

On July 12, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The First National Bank of Milton, Milton, Pennsylvania (FNB), into Commonwealth Bank and Trust Company, National Association, Williamsport, Pennsylvania (Commonwealth). This application is based on an agreement finalized between the proponents on March 28, 1985.

Commonwealth is the sole banking subsidiary of Commonwealth Bancshares Corp., the 23rd largest banking organization in Pennsylvania. As of December 31, 1984, Commonwealth held \$531 million in total deposits and operated 30 offices. As of the same date, FNB operated two offices with \$27 million in total deposits.

The relevant geographic market for this proposal is the area including and immediately surrounding Milton, where FNB operates its only two offices and derives the bulk of its deposits. Within the relevant market, ten commercial banks and savings and loan institutions operate 19 offices and hold total deposits of approxi-

mately \$367 million. Commonwealth and FNB rank second and fifth, respectively, in the market. The resulting bank would become the largest depository in the market with approximately 27 percent of local market deposits. The market would remain only moderately concentrated. Although the proposal would eliminate competition between the two banks, any adverse effects would be mitigated by the presence of numerous competitive alternatives in the area, including the presence of Pennsylvania's largest financial organization.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." Commonwealth has the managerial and financial resources to absorb the subject bank without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this

proposal are satisfactory. Accordingly, the application is approved.

September 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST EASTERN BANK, NATIONAL ASSOCIATION, Wilkes-Barre, Pennsylvania, and The Portland National Bank, Portland, Pennsylvania

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The Portland National Bank, Portland, Pennsylvania, with	\$ 31,608,000
and First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (30), which had	1,199,092,000
merged October 21, 1985, under charter and title of the latter. The merged bank at date of merger had	1,230,700,000

COMPTROLLER'S DECISION

On July 12, 1985, an application was filed with the Office of the Comptroller of the Currency to merge the Portland National Bank, Portland, Pennsylvania (PNB), into First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (First). The application was filed pursuant to a Merger Agreement finalized between PNB and First on March 27, 1985.

As of March 31, 1985, PNB, an independent bank, held total deposits of \$28 million in one office located in Portland, Northhampton County. As of the same date, First held total deposits of \$1 billion in 29 offices. First is a wholly owned subsidiary of First Eastern Corp., a one-bank holding company.

The relevant geographic market for this proposal is an area of approximately 100 square miles, stretching generally northeast and southwest of Portland. The upper portion of the market extends into an adjacent rural section of New Jersey, while the lower portion encompasses the towns of Mount Bethel and Pen Argyl. PNB derives 89 percent of its deposits from within this market, and ranks 5th of 8 commercial banks operating in the market with a 10 percent share of market deposits.

First operates no offices in the relevant market. The nearest offices of First are in the town of Stroudsburg, situated approximately 8 miles northwest of Portland,

in Monroe County. Stroudsburg is separated from the relevant market by the northern section of the Blue Mountain Range. This proposal represents a market extension effort by First. Consummation of the proposal will merely replace one competitor in the market with another, while permitting First to enter a market in which it currently does not compete.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this

proposal are satisfactory. Accordingly, the application is approved, as conditioned in the transmittal letter.

September 16, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

UNION NATIONAL BANK AND TRUST COMPANY OF JOLIET, Joliet, Illinois, and National Bank of Joliet, Joliet, Illinois

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
National Bank of Joliet, Joliet, Illinois (14610), with	\$ 96,968,000
and Union National Bank and Trust Company of Joliet, Joliet, Illinois (14439), which had	212,490,000
merged October 21, 1985, under charter of the latter and title of First Midwest Bank/Joliet, National Association, Joliet, Illinois. The merged bank at date of merger had	309,458,000

* * *

THE CENTURY NATIONAL BANK AND TRUST COMPANY, Rochester, Pennsylvania, and One Branch of Equibank, Latrobe, Pennsylvania

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
One Branch of Equibank, Latrobe, Pennsylvania, with	\$ 20,800,000
was purchased October 26, 1985, by The Century National Bank and Trust Company, Rochester, Pennsylvania (4549), which had	98,509,000
After the purchase was effected, the receiving bank had	119,309,000

COMPTROLLER'S DECISION

On July 17, 1985, an application was filed with the Office of the Comptroller of the Currency by The Century National Bank and Trust Company, Rochester, Pennsylvania (Century), to purchase certain of the assets and assume certain of the liabilities of the Moon Township Office of Equibank, Latrobe, Pennsylvania (Equibank). The application is based upon a written agreement executed by the banks on April 26, 1985.

As of December 31, 1984, Century, an independent bank, held total deposits \$89 million and operated a total of seven offices. As of the same date, the Moon Township office of Equibank held total deposits of \$21 million.

The relevant geographic market for this proposal is the area including and immediately surrounding the Moon Township-Coraopolis community, where the branch to be acquired is located and derives the bulk of its deposits. Century operates in an adjacent market. While the service areas of Century and the targeted branch are contiguous to one another, Century derives only a moderate amount of business from the targeted branch's service area. Therefore, consum-

mation of this proposal would merely replace one competitor in the relevant market with another, with no significant anticompetitive effects.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." Century has the managerial and financial resources to absorb the subject branch without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does

not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

September 23, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

BALBOA NATIONAL BANK, National City, California, and One Branch of California Canadian Bank, San Francisco, California

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
One Branch of California Canadian Bank, San Francisco, California, with	\$11,463,000
was purchased October 26, 1985, by Balboa National Bank, National City, California (17660), which had	95,420,000
After the purchase was effected, the receiving bank had	94,557,000

COMPTROLLER'S DECISION

On August 26, 1984, an application was filed with the Office of the Comptroller of the Currency by Balboa National Bank, National City, California (Balboa), to purchase certain of the assets and assume certain of the liabilities of the San Diego branch of California Canadian Bank, San Francisco, California (CCB). The application is based upon a written agreement executed by the banks on June 14, 1985.

As of July 31, 1985, Balboa, an independent unit bank, had total deposits of \$86 million and operated one office. On the same date, the San Diego branch of CCB had total deposits of \$11 million.

The Office has reviewed the competitive effects of this proposal by using the Office's standard procedures for determining whether a purchase of assets and assumption of liabilities clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a purchase of assets and assumption of liabilities that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." Balboa has the financial and managerial

resources to absorb the subject branch without adversely affecting its overall condition. The future prospects of the bank will be enhanced and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

September 23, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

**NCNB NATIONAL BANK OF NORTH CAROLINA,
Charlotte, North Carolina, and One Branch of Northwestern Bank, North Wilkesboro, North Carolina**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
One Branch of Northwestern Bank, North Wilkesboro, North Carolina, with was purchased October 28, 1985, by NCNB National Bank of North Carolina, Charlotte, North Carolina (13761), which had	\$ 218,000 10,296,422,000
After the purchase was effected, the receiving bank had	10,296,640,000

COMPTROLLER'S DECISION

On July 17, 1985, an application was filed with the Office of the Comptroller of the Currency for NCNB National Bank of North Carolina, Charlotte, North Carolina (NCNB) to purchase certain of the assets and assume the liabilities of the Druid Hills Branch of Northwestern Bank, North Wilkesboro, North Carolina (Druid Hills Branch). The application was filed pursuant to a Purchase and Assumption Agreement finalized between NCNB, Northwestern Bank and First Union National Bank, Charlotte, North Carolina, on June 3, 1985.

As of March 31, 1985, NCNB, with offices throughout the state, held total deposits of \$7.3 billion. As of March 15, 1985, the Druid Hills Branch held total deposits of \$11 million.

The relevant geographic market for this proposal is Henderson County, in which the Druid Hills Branch is located. The market contains five commercial banks and four thrift institutions. NCNB ranks 8th among market competitors, with 2 percent of market deposits. The Plaza Branch also holds approximately 2 percent of market deposits.

NCNB currently operates two offices in Haywood County, with total deposits of \$12 million. Following consummation of this proposal, NCNB would continue to rank next to last among market competitors, with a 4 percent share of aggregate market deposits. Due to

the number, size and relative market shares of the financial institutions in the area, consummation of this proposal will not have a significantly adverse effect on competition in the relevant market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The future prospects of the resulting bank appear favorable as does its ability to further enhance its competitiveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating the proposal are satisfactory. Accordingly, the application is approved.

September 25, 1985

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**WESTAMERICA BANK, N.A.,
San Rafael, California, and WestAmerica Trust Company, San Rafael, California**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
WestAmerica Bank, N.A., San Rafael, California (11282), with and WestAmerica Trust Company, San Rafael, California, which had merged October 31, 1985, under charter and title of the former. The merged bank at date of merger	\$930,951,000 1,146,000 930,951,000

. . .

**THE CITIZENS FIRST NATIONAL BANK OF STORM LAKE,
Storm Lake, Iowa, and Early Savings Bank, Early, Iowa**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Early Savings Bank, Early, Iowa, with was purchased November 1, 1985, by The Citizens First National Bank of Storm Lake, Storm Lake, Iowa (10034), which had	\$ 14,800,000 122,200,000
After the purchase was effected, the receiving bank had	137,000,000

COMPTROLLER'S DECISION

On November 1, 1985 application was made to the Comptroller of the Currency to grant prior written approval for The Citizens First National Bank of Storm Lake, Storm Lake, Iowa (Assuming Bank), to purchase certain assets and assume certain liabilities of the Early Savings Bank, Early, Iowa (ESB). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of ESB. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

The bank was declared insolvent by the Iowa State Banking Commissioner on November 1, 1985, and was placed in the hands of the FDIC as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of ESB.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a

bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the Early community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Early community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of ESB, as set forth in the agreement, is approved. The Comptroller further finds that the failure of ESB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

November 1, 1985

Due to the emergency nature of the situation a report from the Attorney General was not requested.

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**M&I FIRST NATIONAL BANK,
West Bend, Wisconsin, and Heritage Bank of West Bend, West Bend, Wisconsin**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Heritage Bank of West Bend, West Bend, Wisconsin, with	\$ 19,351,000
and M&I First National Bank, West Bend, Wisconsin (11060), which had	119,313,000
merged November 11, 1985, under charter and title of the latter. The merged bank at date of merger had	138,664,000

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**MELLON BANK (CENTRAL) NATIONAL ASSOCIATION,
State College, Pennsylvania, and The First National Bank of Mapleton, Mapleton, Pennsylvania**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Mellon Bank (Central) National Association, State College, Pennsylvania (18211), with	\$582,739,000
and The First National Bank of Mapleton, Mapleton, Pennsylvania (11244), which had	49,437,000
merged November 1, 1985, under charter of the latter and with the title Mellon Bank (Central) National Association. The merged bank at date of merger had	632,174,000

COMPTROLLER'S DECISION

On November 26, 1984, an application was filed with the Office of the Comptroller of the Currency to merge Mellon Bank (Central), National Association, State College, Pennsylvania (Mellon-Central), into The First National Bank of Mapleton, Mapleton, Pennsylvania (FNB). The application was filed pursuant to a Plan of Merger finalized between FNB, Mellon-Central and Mellon Bank Corporation (MBC) on November 15, 1984.

As of June 30, 1984, FNB, an independent bank, held total deposits of \$45 million in six offices. As of the same date, Mellon-Central held total deposits of \$504 million. Mellon-Central is a wholly owned subsidiary of MBC, the largest bank holding company in Pennsylvania.

The relevant geographic market for this proposal is comprised of Huntington County and the adjacent northwestern portion of Mifflin County which includes the towns of Allensville and adjacent rural communities. FNB operates five offices in Huntington County and one office in Allensville, Mifflin County. Mifflin County is bisected by the Jacks Mountain Range, which effectively isolates the Allensville area from Lewistown and other population centers in the county.

Within this market, FNB ranks third of seven commercial banks, with a 17 percent deposit share. In addition, the market contains three savings and loan associations. Mellon-Central operates no offices in Huntington County. The office of Mellon-Central which

is situated 15 miles northwest in Blair County draws only nominal deposits from within Huntington County.

Mellon-Central operates four branch offices in the northern and eastern portions of Mifflin County. However, as noted above, there are significant geographic barriers which separate these areas from the relevant market. Analysis performed by the applicant reveals that the four offices of Mellon-Central located in Mifflin County derive only nominal deposits from the Allensville area. This proposal represents a market extension effort by Mellon-Central. Consummation of the proposed merger will merely replace one competitor in the market with another.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The future prospects of the resulting bank appear favorable as does its ability to further enhance its competitiveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not

significantly lessen competition in the relevant market. Other factors considered in evaluating the proposal are satisfactory. Accordingly, the application is approved, as conditioned in the transmittal letter.

September 30, 1985

**OMNIBANK ILIFF, NATIONAL ASSOCIATION,
Aurora, Colorado, and Aurora Bank, Aurora, Colorado**

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

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<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Aurora Bank, Aurora, Colorado, with was purchased November 1, 1985, by Omnibank Iliff, National Association, Aurora, Colorado (21075), which had	\$18,775,000
After the purchase was effected, the receiving bank had	N.A.

COMPTROLLER'S DECISION

On November 1, 1985 application was made to the Comptroller of the Currency to grant prior written approval for OMNIBANK Iliff, National Association, Aurora, Colorado (Assuming Bank), to purchase certain assets and assume certain liabilities of the Aurora Bank, Aurora, Colorado (Aurora Bank). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of Aurora Bank. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

The bank was declared insolvent by the Colorado State Banking Commissioner on November 1, 1985, and was placed in the hands of the FDIC as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of Aurora Bank.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the stan-

dards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the Aurora community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Aurora community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of Aurora Bank, as set forth in the agreement, is approved. The Comptroller further finds that the failure of Aurora Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

November 1, 1985

Due to the emergency nature of the situation a report from the Attorney General was not requested.

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**NCNB NATIONAL BANK OF NORTH CAROLINA,
Charlotte, North Carolina, and One Branch of First Union National Bank, Charlotte, North Carolina**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
One Branch of First Union National Bank, Charlotte, North Carolina (15650), with was purchased November 11, 1985, by NCNB National Bank of North Carolina, Charlotte, North Carolina (13761), which had	\$ 1,291,000 10,296,640,000
After the purchase was effected, the receiving bank had	10,297,931,000

COMPTROLLER'S DECISION

On July 17, 1985, an application was filed with the Office of the Comptroller of the Currency for NCNB National Bank of North Carolina, Charlotte, North Carolina (NCNB) to purchase certain of the assets and assume the liabilities of the Plaza Branch of First Union National Bank, Charlotte, North Carolina (Plaza Branch). The application was filed pursuant to a Purchase and Assumption Agreement finalized between NCNB, First Union National Bank and North-western Bank, North Wilkesboro, North Carolina, on June 3, 1985.

As of March 31, 1985, NCNB, with offices throughout the state, held total deposits of \$7.3 billion. As of February 28, 1985, the Plaza Branch held total deposits of \$7 million.

The relevant geographic market for this proposal is Haywood County, in which the Plaza Branch is located. The market contains four commercial banks and four thrift institutions. The Plaza Branch holds 2 percent of market deposits.

NCNB does not currently compete in Haywood County. The nearest office of NCNB is situated approximately 20 miles east in Buncombe County. Following consummation of this proposal, NCNB would enter the Haywood market, with the smallest deposit share. This proposal represents a market extension effort by NCNB, and as such would have no adverse effect on competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The future prospects of the resulting bank appear favorable as does its ability to further enhance its competitiveness in the market and serve the convenience and needs of its customers.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their entire communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating the proposal are satisfactory. Accordingly, the application is approved.

September 25, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

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PAN AMERICAN BANK, NATIONAL ASSOCIATION,

Miami, Florida, and Pan American Bank of Miami Shores, National Association, Miami Shores, Florida, and Pan American Bank of Miami, National Association, Miami, Florida, and Pan American Bank of Dade County, National Association, Hialeah, Florida

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Pan American Bank of Miami Shores, National Association, Miami Shores, Florida (14639), with	\$ 59,703,000
and Pan American Bank of Miami, National Association, Miami, Florida (14654), which had	78,561,000
and Pan American Bank of Dade County, National Association, Hialeah, Florida (15448), which had	68,714,000
and Pan American Bank, National Association, Miami, Florida (16442), which had	1,046,583,000
merged November 11, 1985, under charter and title of the latter	1,240,494,000

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AMERICAN NATIONAL BANK AND TRUST CO.,

Rockford, Illinois, and The Illinois National Bank & Trust Co. of Rockford, Rockford, Illinois

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
American National Bank and Trust Co., Rockford, Illinois (9823), with	\$361,838,000
and The Illinois National Bank & Trust Co. of Rockford, Rockford, Illinois (13652), which had	264,649,000
consolidated November 18, 1985, under charter of the latter and title of "Amcore Bank National Association, Rockford."	
The consolidated bank at date of consolidation had	639,950,000

No decision was issued

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition

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THE BOATMEN'S NATIONAL BANK OF ST. LOUIS,

St. Louis, Missouri, and Boatmen's Bank of West County, Ballwin, Missouri, and Boatmen's Trust Company, Clayton, Missouri, and Boatmen's Bank of Crestwood, Crestwood, Missouri, and The Boatmen's National Bank of North St. Louis County, Florissant, Missouri, and Boatmen's Bank of Jennings, Jennings, Missouri, and Boatmen's Bank of Concord Village, St. Louis County, Missouri, and Boatmen's Bank of St. Louis County, St. Louis County, Missouri, and Boatmen's Bank of Webster Groves, Webster Groves, Missouri

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Boatmen's Bank of West County, Ballwin, Missouri, with	\$ 87,084,000
Boatmen's Trust Company, Clayton, Missouri, which had	374,000
Boatmen's Bank of Crestwood, Crestwood, Missouri, which had	120,893,000
and The Boatmen's National Bank of North St. Louis County, Florissant, Missouri (16262), which had	52,311,000
and Boatmen's Bank of Jennings, Jennings, Missouri, which had	95,357,000
and Boatmen's Bank of Concord Village, St. Louis County, Missouri, which had	113,428,000
and Boatmen's Bank of St. Louis County, St. Louis County, Missouri, which had	324,327,000
and Boatmen's Hampton Bank, St. Louis, Missouri, which had	242,446,000
and Boatmen's Bank of Webster Groves, Webster Groves, Missouri, which had	108,989,000
and The Boatmen's National Bank of St. Louis, St. Louis, Missouri (12916), which had	1,504,807,000
merged November 18, 1985, under charter and title of the latter. The merged bank at date of merger had	2,614,535,000

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**THE INDIANA NATIONAL BANK,
Indianapolis, Indiana, and Allen County Bank and Trust Company, Leo, Indiana**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Allen County Bank and Trust Company, Leo, Indiana, with	\$ 7,500,000
was purchased November 22, 1985, by The Indiana National Bank, Indianapolis, Indiana (984), which had	3,394,104,000
After the purchase was effected, the receiving bank had	3,403,904,000

COMPTROLLER'S DECISION

On November 22, 1985, application was made to the Comptroller of the Currency to grant prior written approval for The Indiana National Bank, Indianapolis, Indiana (Assuming Bank), to purchase certain assets and assume certain liabilities of Allen County Bank and Trust Company, Leo, Indiana (Allen County Bank). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of Allen County Bank. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

At the close of business on November 20, 1985, Allen County Bank had total assets of approximately \$10 million. The bank was declared insolvent by the Indiana State Banking Commission on November 22, 1985 and was placed in the hands of the FDIC as receiver. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities of Allen County Bank.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the

community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of Allen County Bank, as set forth in the agreement, is approved. The Comptroller further finds that the failure of Allen County Bank requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

Assuming bank is also authorized to operate Allen County Bank's main office and three branches as branches of The Indiana National Bank.

November 22, 1985

Due to the emergency nature of the situation, a report from the Attorney General was not requested.

**COMMONWEALTH BANK AND TRUST COMPANY, NATIONAL ASSOCIATION,
Williamsport, Pennsylvania, and The Beech Creek National Bank, Beech Creek, Pennsylvania**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The Beech Creek National Bank, Beech Creek, Pennsylvania (13205), with	\$ 16,742,000
and Commonwealth Bank and Trust Company, National Association, Williamsport, Pennsylvania (175), which had	596,353,000
merged November 23, 1985, under charter and title of the latter. The merged bank at date of merger had	612,669,000

COMPTROLLER'S DECISION

On August 20, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The Beech Creek National Bank, Beech Creek, Pennsylvania (BCNB), into Commonwealth Bank and Trust Company, National Association, Williamsport, Pennsylvania (Commonwealth). This application is based on an agreement finalized between the proponents on March 1, 1985.

Commonwealth is the sole banking subsidiary of Commonwealth Bancshares Corporation, the 23rd largest banking organization in Pennsylvania. As of June 30, 1985, Commonwealth held \$540 million in total deposits and operated 30 offices. As of the same date, BCNB operated one office with \$15 million in total deposits.

The relevant geographic market for this proposal is the area including and immediately surrounding Beech Creek, where BCNB operates its only office and derives the bulk of its deposits. Within the relevant market, five commercial banks and one savings and loan association operate ten offices and hold total deposits of approximately \$184 million.

Commonwealth ranks second among depositories in the market, with a 31 percent share of total market deposits. BCNB ranks fourth with a market share of 8 percent. The resulting bank would become the largest depository in the market, with approximately 39 percent of local market deposits.

While consummation of the proposed merger would eliminate some existing competition in the Beech Creek area, the Comptroller believes that certain factors substantially mitigate any anticompetitive effects of the proposal. First, BCNB is a small bank, which is finding it very difficult to compete in the current banking environment. Second, four other financial institutions, including the state's largest financial organiza-

tion, will remain in the market as competitors. In addition, a number of other financial institutions serve as competitive alternatives as a result of their location on the periphery of the relevant market. Accordingly, the Office believes that consummation of this proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider "the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." Commonwealth has the managerial and financial resources to absorb the subject bank without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the banks' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating the proposal are satisfactory. Accordingly, the application is approved.

October 23, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

**PEOPLES BANK, NATIONAL ASSOCIATION,
Belleville, New Jersey, and Carteret Bank and Trust Company, Carteret, New Jersey**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Peoples Bank, National Association, Belleville, New Jersey (12019), with	\$183,518,000
and Carteret Bank and Trust Company, Carteret, New Jersey, which had	69,358,000
merged November 29, 1985, under charter and title of the latter. The merged bank at date of merger had	252,876,000

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**FIRST UNION NATIONAL BANK,
Charlotte, North Carolina, and Northwestern Bank, North Wilkesboro, North Carolina**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Northwestern Bank, North Wilkesboro, North Carolina, with	\$ 2,802,211,000
and First Union National Bank, Charlotte, North Carolina (15650), which had	7,746,964,000
merged December 1, 1985, under charter and title of the latter. The merged bank at date of merger had	10,549,175,000

COMPTROLLER'S DECISION

On July 11, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Northwestern Bank, North Wilkesboro, North Carolina (Northwestern), into First Union National Bank, Charlotte, North Carolina (First Union). This application is based on an agreement finalized between Northwestern and First Union on March 4, 1985.

As of June 30, 1985, Northwestern, a wholly owned subsidiary of Northwestern Financial Corporation, had total deposits of \$2.6 billion and operated offices throughout North Carolina. Northwestern ranks 4th in the state, with 9 percent of commercial bank deposits.

On the same date, First Union had total deposits of \$7.4 billion and operated branches statewide. First Union is a wholly owned subsidiary of First Union Corporation. First Union is the state's third largest commercial bank.

The relevant geographic markets for this proposal are those areas of the state in which the offices of Northwestern are located and from which the bulk of its deposits are drawn. The applicant has identified 25 such markets in which both Northwestern and First Union compete and an additional 18 markets in which First Union has no competitive presence. In the latter 18 markets, consummation of this proposal will merely replace one competitor with another and will not significantly affect competition.

In sparsely populated rural areas, the relevant geographic markets generally correspond to county boundaries, except where noted in the following dis-

cussion. In urban areas, the relevant geographic markets generally correspond to the Rationally Metropolitan Areas (RMA's).

Many North Carolina thrift institutions have established themselves as full competitors of commercial banks, due to their growing involvement in commercial and consumer lending. Consequently, this Office continues to consider thrift institutions in North Carolina as full competitors in determining market shares.

In the Burlington RMA (comprised of Alamance County and the city of Gibsonville, Guilford County) First Union ranks 6th among 13 competitors, with an 8 percent market share, while Northwestern ranks 8th, with 4 percent. The resulting bank, with a 12 percent market share, will rank 4th.

In the Charlotte RMA, which includes Mecklenburg County and adjacent portions of Union, Gaston and Cabarrus counties, First Union ranks second with 16 percent of aggregate deposits, while Northwestern ranks 13th, with only 2 percent. A total of 25 institutions compete in the Mecklenburg market, in which the market leader holds a 36 percent market share. The resulting bank will continue to rank second, with 18 percent of market deposits.

In Cleveland County First Union and Northwestern rank 8th and 9th respectively among 11 competitors. The resulting bank will rank 7th, with 8 percent of market deposits.

The Durham-Chapel Hill RMA includes all of Durham County and most of Orange County. There are 19

competing financial institutions in the Durham-Chapel Hill market, of which First Union ranks 8th with a 4 percent share of market deposits. Northwestern, with 3 percent, ranks 9th. The resulting bank would move to 5th with 8 percent of market deposits.

In the Greensboro-High Point RMA, including all of Guilford County except Gibsonville and parts of Randolph and Davidson counties, First Union ranks 5th and Northwestern ranks 11th, with 6 percent and 3 percent of aggregate deposits, respectively. The resulting bank would rank 5th, with an 8 percent market share.

The Raleigh RMA is comprised of Wake County and adjacent portions of Johnston and Harnett counties. The Raleigh market contains 26 competing financial institutions, of which First Union ranks 7th with 5 percent of market deposits. Northwestern ranks 16th, with a 1 percent deposit share. The resulting bank would rank 6th, with 6 percent of market deposits.

In Rowan County, First Union ranks 5th of 9 competitors, with 9 percent of market deposits. Northwestern ranks 8th, with a 4 percent market share. The resulting bank would hold 13 percent of aggregate deposits and rank 4th in the market.

The Winston-Salem RMA includes Forsyth County and adjacent portions of Davidson and Stokes counties. The market contains 19 competitors, of which First Union ranks 7th and Northwestern ranks 6th, each with 5 percent of aggregate deposits. The resulting bank would rank 3rd, with a 10 percent deposit share.

In each of these markets, given the number, size and relative market shares of the financial institutions in the area, consummation of this proposal will not have a significantly adverse effect on competition in the relevant market.

In Cherokee, Caldwell, Mason, Madison, Transylvania, and Watauga counties, and the portion of Jackson County excluding the Cherokee Indian Reservation the proponents will divest certain branches to institutions not competing in those markets. As a result of the divestitures, the proposal will not reduce the number of competitors or significantly increase concentration levels in these markets.

The applicants have defined the Cherokee Reservation, encompassing portions of Jackson and Swain counties, as a separate market. Data presented by the applicants support their contention that there is only nominal banking activity across the reservation boundaries into adjacent portions of either county. Proponents operate both banking offices in this market and propose to divest one office to an institution which

does not currently compete within the market. As a result of the divestiture, the proposal will merely replace one competitor in the market with another.

In Ashe County, Northwestern ranks 1st with 46 percent of aggregate deposits and First Union ranks 2nd with a 31 percent market share. Proponents propose to divest 3 offices with combined deposits of \$49 million to the only other commercial bank participant in the market, currently ranked 5th of 5 financial institutions, with less than 1 percent of market deposits. The resulting bank will continue to rank 1st, with a 42 percent market share. In view of the minimal competitive presence of the 3rd commercial bank competitor prior to the divestiture, the actual competitive structure in the Ashe County market will change only nominally as a result of this proposal.

In the Asheville RMA and in Henderson, Iredell and McDowell Counties, one of the two proponents ranks either 2nd or 3rd behind market leaders holding over 25 percent of aggregate market deposits. In each of these markets, the proponents propose to divest offices to a current competitor in the market. In each instance the current competitor has only a nominal presence in the market, with less than 3 percent of market deposits. Following the divestitures, the market rank of the resulting bank will remain unchanged. In each of these markets, given the number, size and relative market shares of the financial institutions in the area, consummation of this proposal will not have a significantly adverse effect on competition in the relevant market.

In Stanly County, First Union ranks 3rd of 9 competitors, with 20 percent of market deposits. Northwestern, with 6 percent, ranks 5th. Proponents proposed to divests offices holding deposits of \$20 million to one new entrant and one current competitor in the market. As a consequence of the proposed divestitures, the total number of competitors in each market would remain unchanged, as would the market rank of the resulting bank.

In Haywood County, First Union ranks 1st with a 26 percent market share, and Northwestern ranks 4th, with 12 percent. The applicants propose to divest offices within the market to a current participant. After divestiture, the resulting bank would continue to rank 1st, with 27 percent of aggregate deposits. As a result of the divestitures, the proposal will not significantly increase concentration levels in the Haywood market.

The applicants have identified a market, comprised of Alexander, Burke, Catawba and Lincoln counties, around the city of Hickory. The data presented supports their contention that these counties use Hickory as their financial and commercial center, and that a high level of inter-county commuting occurs, broad-

ening the number of viable banking options. Within the Hickory market, First Union ranks 1st and Northwestern ranks 2nd of 22 competing financial institutions, each with a 14 percent share of market deposits. The proponents propose to divest offices in the Hickory market with total deposits of \$105.7 million to a current competitor in the market (with less than 3 percent of market deposits) and to two new entrants. After divestiture, the resulting bank would rank 1st with 22 percent of aggregate deposits. As a result of the divestitures, the proposal will not reduce the number of competitors or significantly increase concentration levels in this market.

In the Kannapolis-Concord RMA, First Union ranks 3rd of 14 competitors and Northwestern ranks 4th, with 14 percent and 11 percent of market deposits, respectively. The proponents plan to divest offices with \$29 million in deposits to a new entrant. After divestiture, the resulting bank will rank 1st, with a 20 percent market share. As a result of the divestitures, the proposal will not reduce the number of competitors or significantly increase concentration levels in the Kannapolis-Concord market.

The Bank Merger Act requires this office to consider "... the financial and managerial resources and future prospects of existing and proposed institutions and the convenience and needs of the communities to be served." We find the financial and managerial resources of First Union and Northwestern to be satisfactory. The future prospects of the proponents, individually and combined, are favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

The applicants propose to consummate some of the divestitures prior to or concurrent with consummation of this merger. As a result of discussions with the Department of Justice, additional divestitures were proposed which will most likely not occur until after consummation of this merger. Applicants indicate that for these divestitures, the proposed purchaser will be identified and application made to the appropriate regulatory body prior to consummation of the merger.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant

markets. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, conditioned upon the divestitures as proposed in the July 11, 1985 application being completed prior to or simultaneous with consummation and those divestitures proposed by the applicants in their letter dated September 13, 1985 amending the application being completed within six months of the date of consummation of this proposal.

October 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

This responds to your letter of July 13, 1985, requesting a report pursuant to Section 18(c) of the Federal Deposit Insurance Act, 12 U.S.C. §1828(c), on the competitive factors involved in the proposed merger of The Northwestern Bank, North Wilkesboro, N.C. ("Northwestern") into First Union National Bank, Charlotte, N.C. ("First Union").¹

It is our understanding that First Union and Northwestern have entered into agreements in principle and plan to divest 38 offices in various areas, as specified in the Application. It is also our understanding that First Union plans to divest additional offices in certain areas under the conditions specified in counsel's letter of September 5, 1985, a copy of which is attached.² Such additional divestitures are, of course, subject to the execution of definitive agreements and the necessary regulatory approvals.

On the basis of our current information, and, provided that, prior to or concurrently with consummation of the First Union-Northwestern merger, (a) the divestitures specified in the Application are made to the proposed purchasers or other competitively suitable purchasers and (b) the additional divestitures proposed in counsel's letter of September 5, 1985 are the subject of (i) written agreements with competitively and financially suitable purchasers and (ii) applications filed with the appropriate regulators, we conclude that the proposed transaction will not have a significantly adverse effect on competition.

¹The analysis set forth in this letter is based solely on the specific facts contained in this application and such other facts as are presently available. The letter is not intended, and should not be relied upon, as a precedent or policy of the Division. This matter was resolved through a divestiture proposal by the applicant without the need for further inquiry by the Department. Given the disposition of this matter, there is no need to reach the question of whether, in the absence of these divestitures, the proposed transactions would have a significantly adverse effect on competition in any market.

²Counsel's letter leaves open a question of the size of the additional divestiture in the Asheville market. In our view a \$36 million additional divestiture is satisfactory.

**SUN BANK/SARASOTA, NATIONAL ASSOCIATION,
Sarasota, Florida, and Sun Bank/Sarasota County, National Association, Sarasota, Florida**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Sun Bank/Sarasota County, National Association, Sarasota, Florida (17807), with	\$ 36,888,000
and Sun Bank/Sarasota, National Association (20982), which had	99,197,000
merged December 1, 1985, under charter and title of the latter. The merged bank at date of merger had.	136,085,000

. . .

**UNITED NATIONAL BANK,
Sioux Falls, South Dakota, and Farmers State Bank of Kranzburg, Kranzburg, South Dakota**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Farmers State Bank of Kranzburg, Kranzburg, South Dakota, with	\$ 5,606,000
was purchased December 2, 1985, by United National Bank, Sioux Falls, South Dakota (15639), which had	57,859,000
After the purchase was effected, the receiving bank had	62,559,000

COMPTROLLER'S DECISION

On April 3, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization for United National Bank, Sioux Falls, South Dakota (UNB), to purchase the assets and assume the liabilities of Farmers State Bank, Kranzburg, South Dakota (FSB). The application is based on an agreement finalized between UNB and FSB on December 20, 1984.

UNB, a subsidiary of United National Corporation, Sioux Falls, South Dakota, is South Dakota's 20th largest banking organization with total assets of \$57.9 million and total deposits of \$48.2 million as of December 31, 1984. UNB operates five offices in three communities in Minnehaha, Yankton and Clay counties. In addition to this transaction UNB is also proposing to acquire the United National Bank, Watertown, South Dakota, and the SunBank of South Dakota, Sioux Falls, South Dakota. Upon consummation of all three transactions UNB will become the 9th largest banking organization in the state.

FSB had total assets of \$5.6 million and total deposits of \$4.6 million as of December 31, 1984, and operates one office in Codington County.

FSB's relevant geographic market consists of Codington County. FSB is the fourth largest of five banking institutions in the market with 3 percent of the total market deposits. UNB does not operate any offices in the Codington County market; its nearest office in Sioux Falls being approximately 100 miles south of FSB's single office in Kranzburg. Consequently, consummation of this proposal alone will

merely replace one competitor with another and will not have a significantly adverse effect on competition.

As noted previously, UNB is also proposing to acquire the United National Bank in Watertown which serves the relevant geographic market. Including this acquisition in the analysis reduces the number of market participants by one, however, UNB's combined market share would rank it third of four competitors with less than 3 percent of the market's deposits. For this reason, consummation of both acquisitions will not have a significantly adverse effect on competition in the relevant market.

The Bank Merger Act requires this office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. FSB will be provided with expanded resources which will enable it to compete more effectively and to provide a better and more complete range of banking services to meet the needs and convenience of the Kranzburg community.

A review of the record of this application and other information available to this office as a result of its regulatory responsibilities, revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does

not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

October 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

THE FIRST NATIONAL BANK IN FORT MYERS,

Fort Myers, Florida, and North First Bank, North Fort Myers, Florida, and East First National Bank, Fort Myers, Florida, and First Commercial Bank of Fort Myers, Fort Myers, Florida, and The First National Bank in Fort Myers, Fort Myers, Florida

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
North First Bank, North Fort Myers, Florida, with	\$104,206,000
and East First National Bank, Fort Myers, Florida (15865), which had	43,346,000
and First Commercial Bank of Fort Myers, Fort Myers, Florida, which had	8,619,000
and The First National Bank in Fort Myers, Fort Myers, Florida (14195), which had	477,249,000
and The First National Bank in Fort Myers, Fort Myers, Florida (15666), which had	87,267,000
merged December 6, 1985, under charter and title of the latter. The merged bank at date of merger had	741,651,000

* * *

AMSOUTH BANK, NATIONAL ASSOCIATION,

Birmingham, Alabama, and AmSouth Bank of Jacksonville, Jacksonville, Alabama

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
AmSouth Bank, National Association, Birmingham, Alabama (3185), with	\$4,726,808,000
and AmSouth Bank of Jacksonville, Jacksonville, Alabama, which had	45,926,000
merged December 7, 1985, under charter and title of the former. The merged bank at date of merger had	4,758,125,000

* * *

THE CENTURY NATIONAL BANK AND TRUST COMPANY,

Rochester, Pennsylvania, and The First National Bank of Midland, Midland, Pennsylvania, and The National Bank of Beaver County, Monaca, Pennsylvania

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The First National Bank of Midland, Midland, Pennsylvania (8311), with	\$ 22,609,000
and The National Bank of Beaver County, Monaca, Pennsylvania (5879), with	43,727,000
and The Century National Bank and Trust Company, Rochester, Pennsylvania (4549), which had	119,309,000
merged December 9, 1985, under charter and title of the latter. The merged bank at date of merger had	185,645,000

COMPTROLLER'S DECISION

On July 23, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The First National Bank of Midland, Midland, Pennsylvania (FNB), and The National Bank of Beaver County, Monaca, Pennsylvania (NBBC), into The Century National Bank and Trust Company, Rochester, Pennsylvania (Century). This application is based upon an agreement finalized

between Century and NBBC on May 10, 1985 and Century and FNB on May 30, 1985.

As of December 31, 1984, Century held total deposits of \$89 million and operated seven offices. NBBC, with five offices, and FNB, with one office, held total deposits of \$41 million and \$20 million, respectively.

There are two separate relevant geographic markets

for this proposal: the Monaca-Aliquippa banking market, where NBBC operates and derives the bulk of its deposits and the area including and immediately surrounding the township of Midland, where FNB operates its sole office and derives the bulk of its deposits.

Century operates three offices in adjacent areas. However, Century is not a direct competitor in either of the targeted banking markets and as a result receives only a nominal amount of deposits from these areas. Further, FNB and NBBC are not direct competitors. Therefore, consummation of this proposal would merely replace one competitor in the relevant markets with another, with no significant anticompetitive effects.

The Bank Merger Act requires this office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." Century had the managerial and financial resources to absorb the subject banks without adversely affecting its overall condition. The future prospects of the bank are favorable, as are the effects of

the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

October 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

FIRST NATIONAL BANK OF LINCOLN COUNTY, Ruidoso, New Mexico, and First National Bank of Ruidoso, Ruidoso, New Mexico

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
First National Bank of Lincoln County, Ruidoso, New Mexico (17376), with	\$41,609,000
was purchased December 16, 1985, by First National Bank of Ruidoso, Ruidoso, New Mexico (21109), which had	N.A.
After the purchase was effected, the receiving bank had	

COMPTROLLER'S DECISION

On December 16, 1985, application was made to the Comptroller of the Currency to grant prior written approval for First National Bank of Ruidoso, Ruidoso, New Mexico (Assuming Bank), to purchase certain assets and assume certain liabilities of First National Bank of Lincoln County, Ruidoso, New Mexico (FNB). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance Corporation (FDIC) as receiver of FNB. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

On December 13, 1985, due to the financial condition of FNB the Comptroller of the Currency closed FNB and appointed the FDIC as receiver on the same date. The Comptroller has now been asked to grant his written approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities, including all deposit liabilities of FNB.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticom-

petitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Ruidoso community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume

certain liabilities and purchase certain assets of FNB, as set forth in the agreement, is approved. The Comptroller further finds that the failure of FNB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community, and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

By accepting approval and by consummating the purchase and assumption transaction, Assuming Bank agrees to be bound by the following conditions:

1. The amount of intangible assets which may be included in capital for purposes of determining capital adequacy is limited to not more than twenty-five percent (25%) of tangible primary capital.
2. Achieve and maintain a ratio of primary capital to total assets that complies with 12 CFR Part 3, Minimum Capital Ratios.

These conditions shall be deemed to be "conditions imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. §1818(b)(1).

December 16, 1985

Due to the emergency nature of the situation, a report from the Attorney General was not requested.

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FIRST NATIONAL BANK IN ORD, Ord, Nebraska, and Farmers State Bank, Sargent, Nebraska

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Farmers State Bank, Sargent, Nebraska, with	\$13,800,000
was purchased December 19, 1985, by First National Bank in Ord, Ord, Nebraska (13557), which had	35,200,000
After the purchase was effected, the receiving bank had	49,000,000

COMPTROLLER'S DECISION

On December 19, 1985, application was made to the Comptroller of the Currency to grant prior written approval for First National Bank in Ord, Ord, Nebraska (Assuming Bank), to purchase certain assets and assume certain liabilities of Farmers State Bank, Sargent, Nebraska (FSB). The application rests upon an agreement, incorporated herein by reference the same as if fully set forth, negotiated between the Assuming Bank and the Federal Deposit Insurance

Corporation (FDIC) as receiver of FSB. For reasons set forth below, the application is hereby approved and the Assuming Bank is authorized to consummate the purchase and assumption transaction immediately.

On December 19, 1985, due to the financial condition of FSB, the Nebraska Commissioner of Banking closed FSB and appointed the FDIC as receiver. The Comptroller has now been asked to grant his written

approval of the proposed agreement negotiated between the FDIC and Assuming Bank by which the latter would purchase certain assets and assume certain liabilities, including all deposit liabilities, of FSB.

Under the Bank Merger Act, 12 U.S.C. 1828(c), the Comptroller cannot approve a purchase and assumption transaction which would have certain proscribed anticompetitive effects unless he finds these anticompetitive effects to be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. Additionally, the Comptroller is directed to consider the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served. When necessary, however, to prevent the evils attendant upon the failure of a bank, the Comptroller can dispense with the standards applicable to usual acquisition transactions and need not consider reports on the competitive effects from the consequences of the transaction ordinarily solicited from the Department of Justice and other banking agencies. He is authorized in such circumstances to act immediately in his sole discretion to approve such a transaction and to authorize its immediate consummation.

The proposed acquisition will be in accord with all

pertinent provisions of the National Bank Act and will prevent a disruption of banking services to the community. Assuming Bank has sufficient financial resources, and this acquisition will enable it to enhance the banking services offered in the Sargent community.

The Comptroller finds that the anticompetitive effects of the proposed transaction, if any, are clearly outweighed in the public interest by the probable effect of the proposed transaction in meeting the convenience and needs of the community to be served. For these reasons, the Assuming Bank's application to assume certain liabilities and purchase certain assets of FSB, as set forth in the agreement, is approved. The Comptroller further finds that the failure of FSB requires him to act immediately, as contemplated by the Bank Merger Act, to prevent disruption of banking services to the community; and the Comptroller thus waives publication of notice, dispenses with solicitation of competitive reports from other agencies, and authorizes the transaction to be consummated immediately.

Assuming Bank is also authorized to operate FSB's office as a branch.

December 19, 1985

Due to the emergency nature of the situation, a report from the Attorney General was not requested.

* * *

FIRST NATIONAL BANK, Elkhart, Indiana, and One Branch of NorCen Bank, Culver, Indiana

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
One Branch of NorCen Bank, Culver, Indiana, with	\$ 30,125,000
was purchased December 20, 1985, by First National Bank, Elkhart, Indiana (206), which had	610,697,000
After the purchase was effected, the receiving bank had	640,773,000

COMPTROLLER'S DECISION

On September 10, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization for First National Bank, Elkhart, Indiana (First), to purchase the assets and assume the liabilities of the Plymouth Branch of NorCen Bank, Culver, Indiana (NorCen). The application is based on an agreement finalized between First and NorCen on July 24, 1985.

First is a wholly owned subsidiary of First Indiana Bancorp. As of June 30, 1985, First had total assets of \$608 million and total deposits of \$520 million. First

operates eleven offices located in Elkhart County.

NorCen had total assets of \$121 million and total deposits of \$113 million as of June 30, 1985, and operated 5 offices in Marshall County. The Plymouth Office had total assets of \$30 million as of June 30, 1985.

The relevant geographic market for this proposal consists of Marshall County from which NorCen's Plymouth Office receives over 70 percent of its deposits. First does not operate any offices in Marshall

County, its nearest office in Nappanee being located 26 miles northeast of NorCen's Plymouth Office and 12 miles east of NorCen's Bremen Office. Consummation of this proposal will provide another competitor to the Marshall County market and will not significantly lessen competition in that market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. The Plymouth community will be provided with an expanded line of services and greater resources to more effectively meet its banking needs.

A review of the record of this application and other information available to this Office as a result of its

regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 18, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

SOVRAN BANK, NATIONAL ASSOCIATION, Richmond, Virginia, and Virginia Southern Bank, Clarksville, Virginia

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Virginia Southern Bank, Clarksville, Virginia, with	\$ 46,644,000
and Sovran Bank, National Association, Richmond, Virginia (1111), which had	8,102,753,000
merged December 27, 1985, under charter and title of the latter. The merged bank at date of merger had	8,149,397,000

COMPTROLLER'S DECISION

On August 20, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Virginia Southern Bank, Clarksville, Virginia (VSB), into Sovran Bank, National Association, Richmond, Virginia (Sovran). This application was based on an agreement finalized between the proponents on August 8, 1985.

As of March 31, 1985, VSB, an independent bank, held total deposits of \$43 million in three offices. On the same date, Sovran held total deposits of \$6.3 billion and operated 266 offices. Sovran is a wholly owned subsidiary of Sovran Financial Corporation.

The Office has reviewed the competitive effects of this proposal using the Office's standard procedure for determining whether a merger clearly has minimal or no adverse competitive effects. The Office finds that the proposal satisfies the Office's criteria for a merger that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to be served." We find the financial and managerial resources of VSB and Sovran to be satisfactory. The future prospects of the proponents, individually and combined, are favorable, and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does

not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 26, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

SACRAMENTO VALLEY BANK, NATIONAL ASSOCIATION, Sacramento, California, and Sacramento First National Bank, Sacramento, California

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
Sacramento Valley Bank, National Association, Sacramento, California (17120), with	\$57,054,000
and Sacramento First National Bank, Sacramento, California (18437), which had	13,135,000
merged December 28, 1985, under charter and title of the latter. The merged bank at date of merger had	70,189,000

COMPTROLLER'S DECISION

On August 15, 1985, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Sacramento Valley Bank, National Association (SVB), into Sacramento First National Bank, Sacramento, California (SFNB). This application is based on an agreement finalized between SVB and SFNB on July 11, 1985.

As of June 30, 1985, SFNB, a majority owned subsidiary of Centennial Beneficial Corporation, held total deposits of \$10 million and operated its sole office in Sacramento. As of the same date, SVB, a wholly owned subsidiary of Central Pacific Corporation, held total deposits of \$58 million and operated four branches in Sacramento.

The relevant geographic market for this proposal is the Sacramento metropolitan banking market, where both SVB and SFNB operate and derive the bulk of their deposits. Over 30 banks compete in this market. SVB holds 1 percent of total market deposits and SFNB holds a market share of less than .2 percent. These markets shares are de minimis. Accordingly, consummation of the proposal would have no significant adverse effect upon competition in the relevant geographic market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the communities to

be served." SFNB has the managerial and financial resources to absorb the subject bank without adversely affecting its overall condition, provided the required capital injection is made. The future prospects of the bank are favorable, as are the effects of the proposal on the convenience and needs of the general public to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, subject to the conditions noted in a separate communication to SFNB.

November 5, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

. . .

**THE PIQUA NATIONAL BANK AND TRUST COMPANY,
Piqua, Ohio, and Western Ohio National Bank & Trust Company, Covington, Ohio**

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The Piqua National Bank and Trust Company, Piqua, Ohio (1006), with	\$ 76,366,000
and Western Ohio National Bank & Trust Company, Covington, Ohio (5530), which had	33,519,000
merged December 30, 1985, under charter of the former and title of "Heritage National Bank & Trust Company." The	
merged bank at date of merger had	109,885,000

COMPTROLLER'S DECISION

On October 2, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge Western Ohio National Bank and Trust Company, Covington, Ohio (Western), into The Piqua National Bank and Trust Company, Piqua, Ohio (Piqua). The application is based on an agreement finalized between Western and Piqua on August 6, 1985.

Piqua, a subsidiary of Comp One Corporation, had total assets of \$76 million and total deposits of \$65 million as of June 30, 1985, and operated five offices in Miami County.

Western had total assets of \$33 million and total deposits of \$31 million as of June 30, 1985, and operated its main office and three branches in Miami County.

The relevant geographic market consists of Miami County where Piqua has all its 5 offices and Western has its 4 offices. Three of Miami County's 5 largest banking organizations are savings institutions which are offering a full range of deposit and loan services. For this reason, thrift institutions were considered as competitors in this analysis.

Piqua is the sixth largest of twelve banking organizations in the market with 7.9 percent of the market's deposits and Western is the tenth largest of twelve banking organizations with 4.1 percent of the deposits. The resulting bank will become the fourth largest banking organization with 12 percent of the market's deposits. Other large banking organizations which have a minimal share of Miami County deposits but operate offices there include Bank One, Dayton, the largest commercial bank in nearby Montgomery County; Gem Savings, the largest savings institution in Montgomery County; and, The First National Bank and Trust Company of Troy, a subsidiary of First National Cincinnati Corp. The ability of these three institutions to compete for commercial banking business in Miami

County is not reflected by their deposit shares. The competitive impact on the market as a result of this proposed merger would be minimal and the market would remain highly competitive with eleven banking organizations. Consequently, consummation of this proposal will not have an adverse effect on competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks provide no bases for not approving this transaction. Future prospects of the combined entity are good. The merger will enable Western customers to receive the benefit of an expanded pool of resources which will enable it to provide a more complete range of banking services to meet the convenience and needs of the Covington, Troy and Pleasant Hill communities.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 29, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

**COMMONWEALTH BANK AND TRUST COMPANY, NATIONAL ASSOCIATION,
Williamsport, Pennsylvania, and Bank of Central Pennsylvania, Montoursville, Pennsylvania**

Names of banks and type of transaction	Total assets
Bank of Central Pennsylvania, Montoursville, Pennsylvania, with and Commonwealth Bank and Trust Company, National Association, Williamsport, Pennsylvania (175), which had merged December 30, 1985, under charter and title of the latter. The merged bank at date of merger had	\$142,996,000 610,305,000 717,532,000

COMPTROLLER'S DECISION

On March 21, 1985, the application of Commonwealth Bank & Trust Company, National Association, Williamsport, Pennsylvania (Commonwealth), and the Bank of Central Pennsylvania, Montoursville, Pennsylvania (BCP) to merge under the charter of Commonwealth was accepted for filing. The application is based on an agreement finalized by Commonwealth and BCP on August 30, 1984, and subsequently amended on December 27, 1984, and July 29, 1985.

As of June 30, 1984, BCP had four offices in Lycoming County, Pennsylvania, and total deposits of \$134 million. Commonwealth had thirty offices operating in Lycoming and seven other counties in north-central Pennsylvania on June 30, 1984. Commonwealth's total deposits on that date were \$526 million.

The relevant geographic market for this proposal is Lycoming County, where BCP operates all of its offices. As of June 30, 1984, seven commercial banks with thirty-two offices were located in Lycoming County. Commonwealth held the second largest deposit share with nearly 20 percent of the market. BCP ranks fourth in deposit share with slightly more than 15 percent of the market. The resulting bank, after divesting five offices as indicated in the Amendment to the Merger Application,¹ will hold the market's largest deposit share with approximately 30 percent of the market.²

Substantial competition is provided by Northern Central Bank of Williamsport, Pennsylvania, which operates eight offices in Lycoming County with total deposits of \$228 million, representing a 26 percent market share and an additional nineteen branches in other counties for an aggregate deposit total of \$527 million. Northern Central Bank's parent, Keystone Financial, Inc., has assets of \$1.3 billion in the state.

¹The five Commonwealth branches that are to be sold to a commercial bank without banking offices in Lycoming County are: Newberry Office, Williamsport; Squire Hays Office, Williamsport; Montoursville Office; Hughesville Office; and Picture Rocks Office.

²The Supreme Court in *Jefferson Parish Hospital District No. 2 v. Hyde*, — U.S. —, 80 L.Ed. 2d 2, 22 (1984), said that a hospital's 30 percent "market share alone was insufficient as a basis to infer market power."

Williamsport National Bank has five offices located in Lycoming County, with total deposits of \$137 million. Citizens and Northern Bank, Ralston, Pennsylvania, has one office with a deposit total of \$5 million in Lycoming County and an additional thirteen offices in other counties for an aggregate deposit total of \$192 million. Jersey Shore State Bank, Jersey Shore, Pennsylvania, operates four offices, all in Lycoming County, with total deposits of \$68 million. The Muncy Bank and Trust Company, with \$37 million in total deposits, is located in Lycoming County. In addition, the five Commonwealth branches to be sold to an out-of-county bank will create an instant \$42 million presence in the market for the purchaser.

A strictly structural analysis of this merger limited to calculations of market share and the Herfindahl-Hirschman Index ("HHI") suggests that closer scrutiny is warranted. Further analysis is critical because structural analyses of market shares and concentration calculations do not provide conclusive evidence regarding the probable effects of a merger and may produce an inaccurate view of actual market power. As the Supreme Court said in *Times Picayune Publishing Co. v. United States*, 345 U.S. 594, 612 (1953), "[o]bviously, no magic inheres in numbers" In issuing its revised Merger Guidelines on June 14, 1984, the Department of Justice, following various Court's decisions, stated that "market share and concentration data provide only the starting point for analyzing the competitive impact of the merger." 49 Fed. Reg. 26,823, 26,831 (June 29, 1984).

The fundamental objective of antitrust law generally and the Merger Guidelines specifically is to prevent or discourage mergers which "create or enhance 'market power' or . . . facilitate its exercise." *Id.* at 26,827. Market power has been defined by the Supreme Court as the ability to raise prices above those that would be charged in a competitive market. *Jefferson Parish Hospital District No. 2 v. Hyde*, — U.S. —, 80 L.Ed. 2d 2, n.46 (1984).

To analyze realistically the competitive effects of mergers when the resulting institution is a national bank, this Office has previously included savings

institutions in the relevant line of commerce when savings institutions are legally empowered to offer services similar to those offered by commercial banks and when they are presently offering those services or are likely to offer such services in the future.³ Such an approach is warranted in the present case.

Four savings institutions with eight offices were located in Lycoming County as of June 30, 1984. Founders Federal Savings and Loan Association of Williamsport has three of its four offices in Lycoming County and total deposits in the county are \$63 million. Horizon Financial, FA, Pittsburgh, Pennsylvania, has one office in Lycoming County with total deposits of \$6 million. Horizon has forty-three offices statewide and holds deposits of \$1.216 billion, making it the fourth largest savings institution in Pennsylvania. Also with one office in Lycoming County is Central Pennsylvania Savings Association of Shamokin, with total deposits of nearly \$9 million and an additional eight offices in other counties for an aggregate deposit total of \$220 million. In addition, Lock Haven Savings and Loan Association has three of its five offices with \$7 million of its \$41 million total deposits in Lycoming County. These institutions are legally empowered to offer services similar to those offered by commercial banks⁴ and presently offer such services in Lycoming County, thus reducing further the possibility that the institution resulting from the proposed merger could obtain or exercise market power.

A number of financial institutions do not have offices in Lycoming County but do exert competitive influence either by virtue of their extensive advertising in the county or their proximity to the county.⁵ Lycoming

County does not have any local television stations. Wilkes Barre-Scranton stations dominate the market, typically reaching more than 70 percent of Lycoming County viewers. Advertisements for banks on the Wilkes Barre-Scranton stations penetrate the Lycoming County market. Three institutions in particular benefit from this arrangement because of their presence in counties contiguous to Lycoming County. Northeastern Bank of Pennsylvania, Wilkes Barre, has 28 offices and total deposits of \$1.071 billion. First Eastern Bank, N.A., Wilkes Barre, has 33 offices and total deposits of \$873 million. United Penn Bank, Wilkes Barre, has 25 offices and total deposits of \$656 million. A survey conducted recently in Lycoming County to determine which financial institutions are players in the Lycoming County market disclosed that all three of the aforementioned Wilkes Barre banks were identified as institutions with which individuals and businesses in Lycoming County do business. Mellon Bank (Central), N.A., has offices in surrounding Clinton and Union counties. Mellon Bank (Central) is a subsidiary of Mellon National Corporation, Pittsburgh, Pennsylvania, the state's largest banking organization with more than \$26 billion in total assets. Lock Haven, where Mellon has two offices, is less than 15 miles from Lycoming County and is more convenient to residents of western Lycoming County than Williamsport, the Lycoming County seat, because of the easy access provided by highway U.S. 220. Mellon also has two offices in Lewisburg, located to the south of Lycoming County on highway U.S. 15.

Numerous other out-of-area financial institutions provide services in Lycoming County. Typically, these institutions are involved in the market because of the proximity of their offices to Lycoming County, aggressive advertising in publications distributed in Lycoming County, or through aggressive direct mail campaigns. Many of these firms provide easy customer access through toll-free telephone numbers or postage prepaid mailers. The three Wilkes Barre banks discussed above, as well as Equibank, Latrobe, Pennsylvania, and Citibank, N.A., New York, New York, are examples of such institutions.

Competition is also provided by nonbank financial institutions. Consumer discount companies in Lycoming County have nearly \$20 million in outstanding loans, according to the Pennsylvania Department of Banking. Security Pacific Consumer Discount Company and Thorp Consumer Discount Company are examples of firms that have offices in Williamsport and compete with banks in the delivery of credit to the market. Another example is Merrill Lynch and Company, Inc., which has an office in Williamsport and offers interest-bearing checking accounts, credit cards, money market accounts, and personal and

³See *Decision of the Comptroller of the Currency on the Application to Merge Commercial National Bank of Little Rock, Little Rock, Arkansas, into The First National Bank in Little Rock, Little Rock, Arkansas*, May 27, 1983; *Decision of the Comptroller of the Currency on the Application to Merge the Connecticut Bank and Trust Company, Hartford, Connecticut, into The State National Bank of Connecticut, Bridgeport, Connecticut*, December 1, 1982. The Garn-St Germain Depository Institutions Act of 1982, P.L. 97-320, October 15, 1982, Title III, empowers federal savings banks to put up to 10 percent of their assets in general commercial lending, 40 percent in commercial real estate lending, 30 percent in inventory financing and floor planning for dealers of customer goods, and 10 percent for equipment leasing.

⁴In the *Decision of the Comptroller of the Currency on the Application to Merge Farmers Community Bank, State College, Pennsylvania, into Peoples National Bank of Central Pennsylvania, State College, Pennsylvania*, November 5, 1984, this Office found that savings institutions in Centre County, Pennsylvania, were empowered to offer services similar to those offered by commercial banks in Centre County. Savings institutions in Lycoming County are subject to the same regulatory provisions and are therefore likewise able to offer services similar to those offered by commercial banks in Lycoming County.

⁵[W]hat may be inconvenient to a bank customer in an urban area, who has many alternatives for banking and other services in the immediate vicinity, may not be inconvenient to a customer in a small, rural town who is accustomed to traveling long distances to obtain basic services. *Wyoming Bancorporation v. Federal Reserve Board*, 729 F.2d 687-690 (10th Cir. 1984).

mortgage loans. Despite the fact that institutions like these do not offer all of the services available at a commercial bank, together they provide viable alternatives for virtually all banking services.⁶

Yet another deficiency in a static structural analysis of the Lycoming County commercial bank market is the inaccurate impression that is created of a firm's true competitive capacity. The ability of firms to divert resources from external markets in response to an attempt to exercise market power in the relevant market is unacknowledged in a purely structural analysis.⁷ The Supreme Court has acknowledged that for antitrust purposes a corporate parent and its subsidiaries "must be viewed as a single economic unit because of a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate consciousnesses, but one." *Copperweld Corp. v. Independence Tube Corp.*, — U.S. —, 81 L.Ed. 2d 628, 643 (1984).

Applying the Court's reasoning here, the vast resources and the expertise of the parents of the many aforementioned financial service providers should be considered as a competitive influence in the Lycoming County market. Because of the many financial service providers physically located in the market and the even greater number of out-of-area providers which are available to and used by individuals and businesses in Lycoming County, no local bank could disregard competition when pricing its services without feeling the impact of the efforts of other providers of financial services to underprice and lure away consumers of financial services from the local bank attempting to exert market power.

⁶The Supreme Court has held that the relevant line of commerce for evaluating mergers between commercial banks is the "cluster of services provided by commercial banks." *United States v. Connecticut National Bank*, 418 U.S. 656, 664 (1974). As this Office has discussed previously, commercial banks are not necessarily the only species of financial institution to offer the discrete product lines that comprise the cluster of services provided by commercial banks. *Decision of the Comptroller of the Currency on the Application to Merge The Connecticut Bank and Trust Company, Hartford, Connecticut, into the State National Bank of Connecticut, Bridgeport, Connecticut*, December 1, 1982. Compare Proposed Merger Policy Statement of the Federal Deposit Insurance Corporation, 50 Fed. Reg. 40,599 (October 4, 1985) (The FDIC proposes to include as competition when performing competitive analysis of proposed mergers (i) all FDIC & FSLIC insured depository institutions in the geographic market, (ii) noninsured depository institutions, similar financial services firms, and nonbank financial organizations in the geographic market, (iii) depository institutions and nonbank financial organizations outside the geographic market with a demonstrable business and pricing impact in the market, and (iv) relatively large regional or national firms with little or no physical presence in the market but which exert a substantial influence on pricing decisions in the market).

⁷See 2 P. Areeda & L. Turner, *Antitrust Law*, ¶523, pp. 358-67.

Based on a nonstructural analysis of the proposed merger, this Office finds that the divestiture of Commonwealth's five banking offices with \$42 million in deposits in Lycoming County and a subsequent merger of BCP into Commonwealth will not substantially lessen competition in the relevant geographic market. The number and variety of financial service providers which have offices in Lycoming County or do business there make the market highly competitive. The bank resulting from the merger will not possess sufficient market power to enable it to raise prices above those that are charged in a competitive market without facing prompt and effective market reaction. Yet another factor which will prevent dominance in the market is the liberalization of the state's branching law which will facilitate entry by many of the commercial banks which are presently out-of-area providers of financial services to the Lycoming County market.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are considered satisfactory. The future prospects of the proponent banks, independently and in combination, are favorable, as are the expected effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have reviewed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved. This approval is conditioned upon the divestitures occurring prior to or at the time of consummation.

November 29, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

This letter is in response to your letter of March 21, 1985, requesting a report pursuant to Section 18(c) of The Federal Deposit Insurance Act, 12 U.S.C.

§1828(c), on the competitive factors involved in the proposed merger of Commonwealth Bank and Trust Company, N.A. ("Commonwealth") and Bank of Central Pennsylvania ("BCP").¹

It is our understanding that Commonwealth is in the process of seeking an agreement to divest five spe-

cific branch offices, with corresponding deposits and assets, in Lycoming County, Pennsylvania to one or more depository institutions that do not presently have an office in the county. This proposal is stipulated in a letter of July 29, 1985, from Commonwealth's counsel to your office, enclosing an Amendment of the Merger Application.

¹The analysis set forth in this letter is based solely on the specific facts contained in this application and such other facts as are presently available. The letter is not intended, and should not be relied upon, as a precedent or policy of the Division. This matter was resolved through a divestiture proposal by the applicant. Given the disposition of this matter, there is no need to reach the question of whether, in the absence of these divestitures, the proposed transactions would have a significantly adverse effect on competition in any market.

On the basis of our current information, and provided that prior to or concurrently with consummation of the Commonwealth merger with BCP, Commonwealth divests the five branches to competitively suitable purchasers, we conclude that the proposed transaction will not have a significantly adverse effect on competition.

* * *

THE CITIZENS AND SOUTHERN NATIONAL BANK,
Savannah, Georgia, and The Citizens and Southern Bank of Albany, Albany, Georgia, and The Citizens and Southern Bank of Dublin, Dublin, Georgia, and The Citizens and Southern Bank of West Georgia, La Grange, Georgia, and The Citizens and Southern Newnan Bank, Newnan, Georgia, and The Citizens and Southern Bank of Thomaston, Thomaston, Georgia

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The Citizens and Southern Bank of Albany, Albany, Georgia, with	\$ 172,714,000
and The Citizens and Southern Bank of Dublin, Dublin, Georgia, which had	103,013,000
and The Citizens and Southern Bank of West Georgia, La Grange, Georgia, which had	107,651,000
and The Citizens and Southern Newnan Bank, Newnan, Georgia, which had	66,287,000
and The Citizens and Southern Bank of Thomaston, Thomaston, Georgia, which had	59,778,000
and The Citizens and Southern National Bank, Savannah, Georgia (13068), which had	7,624,138,000
merged December 31, 1985, under charter and title of the latter. The merged bank at date of merger had	8,075,024,000

* * *

FIRST BUCKEYE BANK, NATIONAL ASSOCIATION,
Mansfield, Ohio and The Sylvania Bank, Sylvania, Ohio

<i>Names of banks and type of transaction</i>	<i>Total assets</i>
The Sylvania Bank, Sylvania, Ohio with	\$303,038,000
and First Buckeye Bank, National Association, Mansfield, Ohio (2577), which had	487,708,000
merged December 31, 1985, under charter and title of the latter. The merged bank at date of merger had	791,978,000

COMPTROLLER'S DECISION

On October 2, 1985, application was made to the Office of the Comptroller of the Currency, pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge The Sylvania Bank, Sylvania, Ohio (Sylvania), into the First Buckeye Bank, National Association, Mansfield, Ohio (Buckeye). The application is based on an agreement finalized between Sylvania and Buckeye on September 6, 1985.

Sylvania, a wholly owned subsidiary of Sylvania Bancorp, had total assets of \$303 million and total deposits of \$274 million as of June 30, 1985, and operated nine offices located in Toledo (7), Holland and Sylvania, Lucas County, Ohio.

The relevant geographic market for this proposal consists of The Toledo Banking Market as defined by

the Federal Reserve Bank of Cleveland. This market is composed of all of Lucas and Wood counties; the eastern half of Swan Creek Township and the south-eastern section of Fulton Township in Fulton County; Clay, Allen, Benton and Harris Township in Ottawa County; Woodville Township in Sandusky County; and Bedford, Erie, and Whiteford Townships in Monroe County, Michigan. The Toledo Banking Market is appropriate in this case due to the size of Sylvania, its branch locations in Toledo, and the commuting patterns of area residents.

Although Buckeye does not have any offices in the Toledo Banking Market, its affiliated bank, Toledo Trust Company, is headquartered in Toledo and also has two offices in Sylvania. There are 21 commercial banking organizations and 10 savings associations operating within the Toledo Banking Market. The 10 savings associations hold \$2.18 billion in deposits representing 42 percent of the total deposits of commercial banks and savings associations in the market. Because of the services offered by thrifts in the Toledo area these institutions were considered as competitors in the analysis.

Seven of nine organizations with the smallest individual shares of market deposits (less than one-quarter of one percent) are organizations with over \$1 billion in total assets. The deposit shares and concentration ratios of these large institutions do not reflect either their absolute size or their competitive influence in the Toledo Banking Market. Trustcorp and Sylvania, despite ranking second and eighth in deposit share, are only the ninth and nineteenth largest institutions in terms of total domestic assets. In addition, there are several Ohio banking organizations and savings associations with assets over \$1 billion that are not represented in the Toledo Banking Market that could easily enter the market.

The combined institution will rank first in the Toledo Banking Market with 22 percent of the market's deposits. Twenty banking institutions and ten savings associations will continue to compete in this moderately concentrated market. The presence of so many large competitors in this market and the potential for entry of so many others indicates that this proposal will not significantly lessen competition.

The Bank Merger Act requires this Office to consider "... the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources of both banks are satisfactory and future prospects of the combined entity are good. Sylvania will be provided with new and expanded services and with greater resources which will enable it to provide its customers with a more complete range of banking services and to become a more significant competitor in the market.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it does not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 29, 1985

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

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Comptrollers of the Currency, 1863 to the present

No	Name	Date of appointment		Date of resignation		State
1	McCulloch, Hugh	May	9, 1863	Mar	8, 1865	Indiana
2	Clarke, Freeman	Mar	21, 1865	July	24, 1866	New York
3	Hulburt, Hiland R.	Feb	1, 1867	Apr	3, 1872	Ohio
4	Knox, John Jay	Apr	25, 1872	Apr	30, 1884	Minnesota
5	Cannon, Henry W.	May	12, 1884	Mar	1, 1886	Minnesota
6	Tranholm, William L.	Apr	20, 1886	Apr	30, 1889	South Carolina
7	Lacey, Edward S.	May	1, 1889	June	30, 1892	Michigan
8	Heppburn, A. Barton	Aug	2, 1892	Apr	25, 1893	New York
9	Eckels, James H.	Apr	26, 1893	Dec	31, 1897	Illinois
10	Dawes, Charles G.	Jan	1, 1898	Sept	30, 1901	Illinois
11	Ridgely, William Barret	Oct	1, 1901	Mar	28, 1908	Illinois
12	Murray, Lawrence O.	Apr	27, 1908	Apr	27, 1913	New York
13	Williams, John Skelton	Feb	2, 1914	Mar	2, 1921	Virginia
14	Crissinger, D. R.	Mar	17, 1921	Apr	30, 1923	Ohio
15	Dawes, Henry M.	May	1, 1923	Dec	17, 1924	Illinois
16	McIntosh, Joseph W.	Dec	20, 1924	Nov	20, 1928	Illinois
17	Pole, John W.	Nov	21, 1928	Sept	20, 1932	Ohio
18	O'Connor, J. F. T.	May	11, 1933	Apr	16, 1938	California
19	DeLano, Preston	Oct	24, 1938	Feb	15, 1953	Massachusetts
20	Gidney, Ray M.	Apr	16, 1953	Nov	15, 1961	Ohio
21	Saxon, James J.	Nov	16, 1961	Nov	15, 1966	Illinois
22	Camp, William B.	Nov	16, 1966	Mar	23, 1973	Texas
23	Smith, James E.	July	5, 1973	July	31, 1976	South Dakota
24	Heimann, John G.	July	21, 1977	May	15, 1981	New York
25	Conover, C. T.	Dec	16, 1981	May	4, 1985	California
26	Clarke, Robert L.	Dec	2, 1985			Texas

Deputy Comptrollers of the Currency, 1863 to 1985

No	Name	Dates of tenure				State
1	Howard, Samuel T.	May	9, 1863	Aug	1, 1865	New York
2	Hulburd, Hiland R.	Aug.	1, 1865	Jan.	31, 1867	Ohio
3	Knox, John Jay	Mar.	12, 1867	Apr.	24, 1872	Minnesota
4	Langworthy, John S.	Aug.	8, 1872	Jan.	3, 1886	New York
5	Snyder, V P	Jan.	5, 1886	Jan.	3, 1887	New York
6	Abrahams, J D	Jan.	27, 1887	May	25, 1890	Virginia
7	Nixon, R M	Aug.	11, 1890	Mar.	16, 1893	Indiana
8	Tucker, Oliver P	Apr.	7, 1893	Mar.	11, 1896	Kentucky
9	Coffin, George M	Mar.	12, 1896	Aug.	31, 1898	South Carolina
10	Murray, Lawrence C.	Sept.	1, 1898	June	29, 1899	New York
11	Kane, Thomas P.	June	29, 1899	Mar.	2, 1923	District of Columbia
12	Fowler, Willis J.	July	1, 1908	Feb.	14, 1927	Indiana
13	McIntosh, Joseph W.	May	21, 1923	Dec.	19, 1924	Illinois
14	Collins, Charles W.	July	1, 1923	June	30, 1927	Illinois
15	Stearns, E W	Jan.	6, 1925	Nov.	30, 1928	Virginia
16	Awalt, F G	July	1, 1927	Feb.	15, 1936	Maryland
17	Gough, E H.	July	6, 1927	Oct.	16, 1941	Indiana
18	Proctor, John L.	Dec.	1, 1928	Jan.	23, 1933	Washington
19	Lyons, Gibbs	Jan.	24, 1933	Jan.	15, 1938	Georgia
20	Prentiss, Jr., William	Feb.	24, 1936	Jan.	15, 1938	Georgia
21	Diggs, Marshall R.	Jan.	16, 1938	Sept.	30, 1938	Texas
22	Oppegard, G J.	Jan.	16, 1938	Sept.	30, 1938	California
23	Upham, C B.	Oct.	1, 1938	Dec.	31, 1948	Iowa
24	Mulroney, A J.	May	1, 1939	Aug.	31, 1941	Iowa
25	McCandless, R B.	July	7, 1941	Mar.	1, 1951	Iowa
26	Sedlacek, L H.	Sept.	1, 1941	Sept.	30, 1944	Nebraska
27	Robertson, J L.	Oct.	1, 1944	Feb.	17, 1952	Nebraska
28	Hudspeth, J W.	Jan.	1, 1949	Aug.	31, 1950	Texas
29	Jennings, L A.	Sept.	1, 1950	May	16, 1960	New York
30	Taylor, W M.	Mar.	1, 1951	Apr.	1, 1962	Virginia
31	Garwood, G W.	Feb.	18, 1952	Dec.	31, 1962	Colorado
32	Fleming, Chapman C.	Sept.	15, 1959	Aug.	31, 1962	Ohio
33	Haggard, Hollis S.	May	16, 1960	Aug.	3, 1962	Missouri
34	Camp, William B.	Apr.	2, 1962	Nov.	15, 1966	Texas
35	Redman, Clarence B.	Aug.	4, 1962	Oct.	26, 1963	Connecticut
36	Watson, Justin T.	Sept.	3, 1962	July	18, 1975	Ohio
37	Miller, Dean E.	Dec.	23, 1962			Iowa
38	DeShazo, Thomas G.	Jan.	1, 1963	Mar.	3, 1978	Virginia
39	Egerton, R. Coleman	July	13, 1964	June	30, 1966	Iowa
40	Blanchard, Richard J.	Sept.	1, 1964	Sept.	26, 1975	Massachusetts
41	Park, Radcliffe	Sept.	1, 1964	June	1, 1967	Wisconsin
42	Faulstich, Albert J.	July	19, 1965	Oct.	26, 1974	Louisiana
43	Motter, David C.	July	1, 1966	Sept.	20, 1981	Ohio
44	Gwin, John D.	Feb.	21, 1967	Dec.	31, 1974	Mississippi
45	Howland, Jr. W A.	July	5, 1973	Mar.	27, 1978	Georgia
46	Mullin, Robert A.	July	5, 1973	Sept.	8, 1978	Kansas
47	Ream, Joseph M.	Feb.	2, 1975	June	30, 1978	Pennsylvania
48	Bloom, Robert	Aug.	31, 1975	Feb.	28, 1978	New York
49	Chotard, Richard D.	Aug.	31, 1975	Nov.	25, 1977	Missouri
50	Hall, Charles B.	Aug.	31, 1975	Sept.	14, 1979	Pennsylvania
51	Jones, David H.	Aug.	31, 1975	Sept.	20, 1976	Texas
52	Murphy, C Westbrook	Aug.	31, 1975	Dec.	30, 1977	Maryland
53	Selby, H. Joe	Aug.	31, 1975			Texas
54	Homan, Paul W.	Mar.	27, 1978	Jan.	21, 1983	Nebraska
55	Keefe, James T.	Mar.	27, 1978	Sept.	18, 1981	Massachusetts
56	Muckenfuss, Cantwell F., III	Mar.	27, 1978	Oct.	1, 1981	Alabama
57	Wood, Billy C.	Nov.	7, 1978			Texas
58	Longbrake, William A.	Nov.	8, 1978	July	9, 1982	Wisconsin
59	Odum, Jr., Lewis G.	Mar.	21, 1979	Nov.	16, 1980	Alabama
60	Martin, William E.	May	22, 1979	Apr.	4, 1983	Texas
61	Barefoot, Jo Ann	July	13, 1979	Sept.	5, 1982	Connecticut
62	Lord, Charles E.	Apr.	13, 1981	Mar.	31, 1982	Connecticut
63	Bench, Robert P.	Mar.	21, 1982			Massachusetts
64	Klinzing, Robert R.	Mar.	21, 1982	Aug.	21, 1983	Connecticut
65	Robertson, William L.	Mar.	21, 1982			Texas
66	Arnold, Doyle L.	May	2, 1982	May	12, 1984	California
67	Weiss, Steven J.	May	2, 1982			Pennsylvania
68	Stephens, Martha B.	June	1, 1982	Jan.	19, 1985	Georgia
69	Stirnweis, Craig M.	Sept.	19, 1982			Idaho
70	Herrmann, Robert J.	Jan.	1, 1983			Illinois
71	Mancusi, Michael A.	Jan.	1, 1983			Maryland
72	Marriott, Dean S.	Jan.	1, 1983			Missouri
73	Poole, Clifton A., Jr.	Jan.	1, 1983			North Carolina
74	Taylor, Thomas W.	Jan.	1, 1983			Ohio
75	Boland, Jr., James E.	Feb.	7, 1983	Feb.	15, 1985	Pennsylvania
76	Fisher, Jerry	Apr.	17, 1983			Delaware
77	Patnarka, Michael	July	10, 1983			California
78	Wilson, Karen J.	July	17, 1983			New Jersey
79	Winstead, Bobby B.	Mar.	18, 1984			Texas
80	Chew, David L.	May	2, 1984	Feb.	2, 1985	District of Columbia
81	Waller, Judith A.	Apr.	24, 1985			Indiana
82	Maguire, Francis E., Jr.	Jan.	9, 1985			Virginia

Changes in the structure of the national banking system, by states, calendar 1985

	In operation Dec. 31, 1984	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation Dec. 31, 1985
						Converted to state banks	Merged with state banks	
Alabama	75	1	5	0	0	2	10	59
Alaska	6	0	0	0	0	0	0	6
Arizona	10	4	0	0	0	0	0	14
Arkansas	77	4	0	0	0	0	0	81
California	158	15	1	0	0	1	1	170
Colorado	229	14	1	0	0	0	1	241
Connecticut	14	4	1	0	0	0	0	17
Delaware	14	2	0	0	0	0	0	16
District of Columbia	18	0	0	0	0	0	0	18
Florida	187	20	22	0	0	1	2	182
Georgia	55	2	3	0	0	0	0	54
Hawaii	3	0	0	0	0	0	0	3
Idaho	7	0	0	0	0	0	0	7
Illinois	404	1	4	0	0	1	0	400
Indiana	111	0	0	0	0	0	1	110
Iowa	106	6	0	0	0	0	1	111
Kansas	165	6	1	0	0	0	0	170
Kentucky	79	1	0	0	0	0	1	79
Louisiana	67	4	0	0	0	0	0	71
Maine	9	0	0	0	0	0	1	8
Maryland	25	1	1	0	0	1	0	24
Massachusetts	64	1	6	0	0	0	1	58
Michigan	119	1	1	0	0	0	0	119
Minnesota	199	14	0	0	0	1	0	212
Mississippi	34	1	1	0	0	0	0	34
Missouri	126	13	10	0	0	1	1	127
Montana	54	1	0	0	0	0	0	55
Nebraska	123	3	5	0	0	1	0	120
Nevada	5	1	0	0	0	0	0	6
New Hampshire	27	0	1	0	0	0	1	25
New Jersey	71	1	2	0	0	0	0	70
New Mexico	44	4	2	0	1	0	1	44
New York	107	1	1	0	0	0	2	105
North Carolina	17	0	0	0	0	0	0	17
North Dakota	40	3	0	0	0	0	0	43
Ohio	150	0	3	0	0	0	2	145
Oklahoma	229	7	1	0	2	0	1	232
Oregon	7	1	0	0	0	0	0	8
Pennsylvania	195	2	9	0	0	1	2	185
Rhode Island	4	2	0	0	0	0	0	6
South Carolina	18	2	0	0	0	0	0	20
South Dakota	25	1	1	0	0	0	0	25
Tennessee	60	1	2	0	0	0	0	59
Texas	998	76	3	0	2	5	5	1,059
Utah	7	0	0	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	50	1	4	0	0	0	1	46
Washington	24	2	1	0	0	0	0	25
West Virginia	101	1	2	0	0	0	2	98
Wisconsin	123	1	2	0	0	0	1	121
Wyoming	58	3	1	0	0	0	0	60
United States	4,910	229	97	0	5	16	37	4,984

NOTES: Organized and opened for business includes all state banks converted to national banks and all newly formed national banks. The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions. Also included in this column are immediate FDIC assisted "merger" transactions. Voluntary liquidations include only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchase and assumptions are included in the "merged" columns. Payouts include all failed national banks for which the FDIC is named receiver and no other depository institution is named as successor.

Branches* of national banks, by states, July 1 to December 31, 1985

	<i>Branches operating at beginning of period</i>	<i>Number of de novo branches opened</i>	<i>Branches acquired through merger or conversion</i>	<i>Existing branches closed or converted</i>	<i>Branches operating at end of period</i>
Alabama	484	6	8	8	490
Alaska	94	3	0	0	97
Arizona	401	9	0	1	409
Arkansas	210	2	3	0	215
California	2,681	32	0	93	2,620
Colorado	46	2	0	2	46
Connecticut	339	0	0	0	339
Delaware	14	0	0	0	14
District of Columbia	168	0	0	0	168
Florida	1,419	46	0	11	1,454
Georgia	544	13	0	3	554
Hawaii	11	0	0	0	11
Idaho	194	2	0	1	195
Illinois	279	4	0	4	279
Indiana	568	7	0	5	570
Iowa	118	1	0	2	117
Kansas	87	0	0	1	86
Kentucky	279	2	0	2	279
Louisiana	322	3	1	0	326
Maine	90	0	0	0	90
Maryland	543	6	0	1	548
Massachusetts	517	13	0	0	530
Michigan	970	2	0	29	943
Minnesota	146	4	0	2	148
Mississippi	311	2	0	0	313
Missouri	143	4	4	4	152
Montana	11	0	0	0	11
Nebraska	42	1	0	4	39
Nevada	94	0	0	1	93
New Hampshire	110	2	0	0	112
New Jersey	1,095	19	0	1	1,113
New Mexico	129	4	0	0	133
New York	2,031	33	0	1	2,063
North Carolina	1,005	10	0	5	1,010
North Dakota	31	0	0	0	31
Ohio	1,684	14	0	6	1,692
Oklahoma	66	4	0	0	70
Oregon	359	4	1	0	364
Pennsylvania	1,569	13	0	0	1,582
Rhode Island	107	0	18	0	125
South Carolina	389	1	0	0	390
South Dakota	102	0	0	1	101
Tennessee	477	3	0	3	477
Texas	57	6	0	5	58
Utah	180	0	0	1	179
Vermont	53	1	0	0	54
Virginia	743	7	0	4	746
Washington	660	6	0	1	665
West Virginia	82	7	0	0	89
Wisconsin	130	3	0	0	133
Wyoming	0	0	0	0	0
Total	22,189	301	35	202	22,323

* Does not include CBCT or foreign branches.

CBCT branches* of national banks, by states, July 1 to December 31, 1985

	<i>Branches operating at beginning of period</i>	<i>Number of de novo CBCTs opened</i>	<i>Branches acquired through merger or conversion</i>	<i>Existing CBCTs closed or converted</i>	<i>Branches operating at end of period</i>
Alabama	46	3	0	2	47
Alaska	8	0	0	0	8
Arizona	21	1	0	0	22
Arkansas	20	1	0	0	21
California	117	23	0	42	98
Colorado	61	9	0	2	68
Connecticut	20	41	0	0	61
Delaware	36	0	0	0	36
District of Columbia	27	2	0	0	29
Florida	157	72	0	5	224
Georgia	77	2	0	3	76
Hawaii	0	0	0	0	0
Idaho	3	0	0	0	3
Illinois	102	7	0	0	109
Indiana	35	7	0	0	40
Iowa	109	12	0	0	121
Kansas	80	3	0	0	83
Kentucky	24	1	0	0	25
Louisiana	35	1	0	0	36
Maine	76	4	0	0	80
Maryland	32	13	0	0	45
Massachusetts	216	43	0	0	259
Michigan	167	21	0	10	178
Minnesota	110	38	0	0	148
Mississippi	8	0	0	0	8
Missouri	6	2	0	0	8
Montana	28	0	0	0	28
Nebraska	160	11	0	4	167
Nevada	30	2	0	0	32
New Hampshire	6	1	0	0	7
New Jersey	28	6	0	0	34
New Mexico	8	3	0	0	11
New York	272	8	0	1	279
North Carolina	43	6	0	4	45
North Dakota	20	1	0	0	21
Ohio	170	18	0	3	185
Oklahoma	203	2	0	0	205
Oregon	139	12	0	0	151
Pennsylvania	183	44	0	0	227
Rhode Island	3	0	0	0	3
South Carolina	40	2	0	0	42
South Dakota	20	1	0	0	21
Tennessee	82	0	0	0	82
Texas	193	4	0	0	197
Utah	6	0	0	0	6
Vermont	0	1	0	0	1
Virginia	34	2	0	0	36
Washington	50	60	0	0	110
West Virginia	61	2	0	0	63
Wisconsin	84	3	0	0	87
Wyoming	0	0	0	0	0
Total	3,456	495	0	78	3,873

* Customer-bank communications terminal branches

Federal branches and agencies of foreign banks, by state

	Federal branches and agencies— open July 1	Applications, July 1 to December 31, 1985				Federal branches and agencies opened July 1 to December 31	Federal branches and agencies closed July 1 to December 31	Federal branches and agencies— open December 31
		Received	Approved	Disapproved	Withdrawn			
Total de novo	71	3	2	0	2	3	2	72
Federal branch								
California	2	1	0	0	1	0	0	2
District of Columbia	1	0	0	0	0	0	0	1
Illinois	1	0	0	0	0	0	0	1
New York	46	1	1	0	1	2	2	46
Limited Federal branch								
California	7	0	0	0	0	0	0	7
District of Columbia	2	0	0	0	0	0	0	2
Illinois	3	1	1	0	0	1	0	4
New York	6	0	0	0	0	0	0	6
Washington	1	0	0	0	0	0	0	1
Federal agency								
Florida	1	0	0	0	0	0	0	1
Louisiana	1	0	0	0	0	0	0	1
Total conversions	12	1	0	0	1	0	0	12
State agency to Federal branch								
California	1	0	0	0	0	0	0	1
New York	9	1	0	0	1	0	0	9
State agency to limited Federal branch								
California	1	0	0	0	0	0	0	1
New York	1	0	0	0	0	0	0	1

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Applications for national bank charters, July 1 to December 31, 1985

	Approved	Denied	Charters issued	State-chartered banks converted to national banks	Trust companies*	Nonbank banks*
Total	42	33	78	13	3	2
Alabama	1	0	0	1	0	0
Alaska	0	0	0	0	0	0
Arizona	1	2	3	1	0	0
Arkansas	0	0	0	3	0	0
California	6	2	6	0	0	0
Colorado	2	5	5	0	0	0
Connecticut	0	0	3	0	0	0
Delaware	0	0	1	0	0	0
District of Columbia	1	0	0	0	0	0
Florida	7	2	8	1	2	0
Georgia	0	0	0	0	0	0
Hawaii	0	0	0	0	0	0
Idaho	0	0	0	0	0	0
Illinois	0	0	0	0	0	0
Indiana	0	0	0	0	0	0
Iowa	0	0	0	1	0	0
Kansas	0	0	0	0	0	0
Kentucky	0	0	2	0	0	0
Louisiana	1	2	1	1	0	0
Maine	0	0	0	0	0	0
Maryland	0	0	0	0	0	0
Massachusetts	0	1	0	0	0	0
Michigan	0	0	0	0	0	0
Minnesota	0	0	0	0	0	0
Mississippi	0	0	1	0	0	0
Missouri	0	0	2	1	0	0
Montana	0	0	0	0	0	0
Nebraska	0	0	1	0	0	0
Nevada	0	0	0	0	0	0
New Hampshire	0	0	0	0	0	0
New Jersey	0	2	0	0	0	0
New Mexico	0	0	2	0	0	0
New York	1	1	1	0	0	0
North Carolina	0	0	0	1	0	0
North Dakota	0	0	0	0	0	0
Ohio	0	0	0	0	0	0
Oklahoma	1	0	0	0	0	0
Oregon	0	0	2	1	0	0
Pennsylvania	0	0	0	0	0	0
Rhode Island	0	0	1	0	0	0
South Carolina	1	0	0	0	0	0
South Dakota	0	0	1	0	0	0
Tennessee	1	0	0	0	0	0
Texas	18	18	29	0	0	0
Utah	0	0	0	0	0	0
Vermont	0	0	0	0	0	0
Virginia	0	0	1	0	0	0
Washington	1	0	0	0	0	0
West Virginia	0	0	2	0	0	0
Wisconsin	0	0	1	0	0	0
Wyoming	0	0	1	0	0	0
Puerto Rico	0	0	1	0	0	0

* These figures are included in the figures for received, approved, denied and newly organized

Applications for new national bank charters, approved and rejected, by states, July 1 to December 31, 1985

	Approved	Rejected		Approved	Rejected
ALABAMA			NEW YORK		
The Bank of Mobile, National Association Mobile	Nov 29	_____	The Park Avenue Bank, National Association, New York	Nov 18	_____
ARIZONA			OKLAHOMA		
Gateway National Bank, Phoenix	_____	Aug 14	Shadowlake Bank, National Association, Del City	Nov 15	_____
Gateway National Bank, Phoenix	Nov 5	Dec 18	SOUTH CAROLINA		
City National Bank of Arizona, Tucson	_____	_____	The Peoples National Bank, Easley	Nov 18	_____
CALIFORNIA			TENNESSEE		
Financial National Bank of California, Anaheim	_____	Aug 27	First American Trust Company, National Association F/K/A 1st AM National TR CO, Nashville	Nov 29	_____
East County Bank, National Association, Antioch	Dec 18	_____	TEXAS		
Foothill Community Bank, National Association, Brownsville	July 19	_____	Addison Forum Bank, National Association, Addison	_____	Dec 23
State Street Bank and Trust Company of California, National Association, Culver City	July 19	_____	South Arlington National Bank, Arlington	Aug 23	_____
United Security Bank, National Association, Fresno	Dec 2	_____	Guaranty National Bank, Northeast, Austin	July 24	_____
BT Trust Company of California, National Association, Los Angeles	Aug 5	_____	Southbank Austin, National Association, Austin	_____	July 10
American Pacific National Bank, San Francisco	_____	July 25	First National Bank of Blue Ridge, Blue Ridge	July 22	_____
The Bank of San Ramon, National Association, San Ramon	July 15	_____	American National Bank, Bryan	July 15	_____
COLORADO			Beneficial National Bank, Dallas	Aug 7	_____
First National Bank of Denver Technological Center, National Association, Denver	_____	Nov 18	East Park National Bank, Dallas	July 30	_____
Uptown National Bank of Denver, Denver	_____	Aug 6	First Commercial National Bank, Dallas	_____	July 30
Firstbank of Cherry Creek, National Association, Denver	July 22	_____	Northwest National Bank, Dallas	Sept 30	Sept 4
First National Bank of Edgewater, Edgewater Park National Bank, Estes Park	Sept 4	Nov 4	Wintergreen National Bank, De Soto	_____	Aug 8
First National Bank of Mt. Crested Butte, Mt. Crested Butte	_____	Nov 18	First National Bank, Eastland	_____	Aug 27
First National Bank of Jefferson County, Wheat Ridge	_____	Nov 4	Pecan Grove National Bank, Fort Bend	July 30	_____
DISTRICT OF COLUMBIA			Centreport National Bank, Fort Worth	Sept 4	_____
Federal City National Bank, Washington	July 16	_____	Riverbend National Bank, Fort Worth	_____	_____
FLORIDA			Texas American Bank/City View, National Association, Fort Worth	July 23	_____
Boca Raton First National Bank, Boca Raton	Sept 25	_____	Parmer County National Bank, Friona	_____	July 12
Colonial National Bank, Fort Myers	Sept 17	_____	Coryell National Bank, Gatesville	_____	Sept 3
The National Bank of Lee County, Fort Myers	July 18	_____	City National Bank, Houston	July 10	Sept 4
Jay National Bank, Jay	_____	Aug 27	First National Bank of Hurst, Hurst	_____	_____
Private Bank and Trust, National Association, Miami	Oct 18	_____	First Texas Bank-Irving, National Association, Irving	July 15	Nov 14
Citizens National Bank of Naples, Naples	July 22	_____	Jasper National Bank, Jasper	_____	Oct 17
Mellon Bank (FL) #2, National Association, Sarasota	Dec 10	_____	The Bank of Joshua, National Association, Joshua	_____	_____
The First Bankers of the Gulf Coast, National Association, Sarasota	Sept 18	Aug 6	Bank of Clear Lake, National Association, League City	July 15	_____
Guaranty National Bank, Tallahassee	_____	_____	Western National Bank, Lubbock	Sept 11	Nov 15
LOUISIANA			National Bank for Midland, Midland	_____	_____
Kenner National Bank & Trust, Kenner	_____	Sept 3	Chisholm National Bank, Plano	July 30	_____
Citizens National Bank of St. Landry Parish, Opelousas	_____	Oct 4	Plano National Bank, Plano	Sept 18	_____
Parish National Bank of St. Tammany, Slidell	Sept 4	_____	Republicbank Preston North, National Association, Plano	July 30	Nov 26
NEW JERSEY			First National Bank of Portland, Portland	_____	Dec 23
South Jersey National Bank, Clementon	_____	July 30	Campbell Forum Bank of Richardson, Richardson	Nov 1	Nov 15
Continental National Bank of New Jersey, Elizabeth	_____	Sept 19	Cattleman's National Bank, Round Mountain Bankfirst Lake Travis, National Association, Travis County	_____	Sept 30
			First National Bank of Tyler, Tyler	_____	Dec 18
			Texas National Bank - Clear Lake, Webster	_____	July 10
			Cypress National Bank, Wimberley	_____	_____
			VIRGINIA		
			Central Fidelity Bank, National Association, Henrico County	July 16	_____

New national bank charters issued, by states, July 1 to December 31, 1985—continued

Charter number	Date open	Title and location of bank	Charter number	Date open	Title and location of bank
Total: 100 banks					
ARIZONA			LOUISIANA		
18684	August 22	Biltmore National Bank, Phoenix	20184	October 7	Citizens National Bank, Bossier City
20283	December 16	First Commerce National Bank, Phoenix	MASSACHUSETTS		
20258	December 9	Republic National Bank, Phoenix	18677	July 1	Fleet National Bank of Boston, Boston
CALIFORNIA			MISSISSIPPI		
18691	August 5	Santa Lucia National Bank, Atascadero	20493	September 30	Pike County National Bank, McComb
18686	September 3	Fallbrook National Bank, Fallbrook	MISSOURI		
20344	September 13	Channel Islands National Bank, Oxnard	20427	September 9	The Liberty National Bank, Liberty
20255	December 6	Firstbank of Palm Desert, National Association, Palm Desert	20445	July 29	Bankcenter One St. Charles National Association, St. Charles
18696	August 1	Commerce Bank of San Luis Obispo, National Association, San Luis Obispo	NEBRASKA		
18488	December 5	The Bank of San Ramon, National Association, San Ramon	20500	October 1	Commerce Bank of Omaha National Association, Omaha
COLORADO			NEW MEXICO		
21075	November 1	Omnibank Iliff, National Association, Aurora	21013	September 12	First National Bank of Chaves County, Roswell
20446	August 21	Boulder Valley National Bank, Boulder	21109	December 16	First National Bank of Ruidoso, Ruidoso
20533	October 7	Eagle National Bank, Broomfield	NEW YORK		
20263	September 5	Intrawest Bank of Arapahoe, National Association, Englewood	20468	August 5	Chemical Bank, National Association, Jericho
18701	August 12	Douglas County National Bank, Parker	OKLAHOMA		
CONNECTICUT			18634	December 16	Heritage National Bank, Davis
18713	July 15	Community National Bank, Glastonbury	20062	September 9	First Southern Bank, National Association, Oklahoma City
18676	July 1	Fleet National Bank of Connecticut, Hartford	RHODE ISLAND		
18668	November 18	Summit National Bank, Torrington	18674	August 13	Rhode Island National Bank, Providence
DELAWARE			SOUTH DAKOTA		
20697	August 5	Barclays Bank of Delaware, National Association, Wilmington	20152	August 12	First City Sioux Falls National Bank, Sioux Falls
FLORIDA			TEXAS		
20454	July 15	First Sanlando Bank, National Association, Altamonte Springs	18647	August 20	Liberty National Bank, Austin
20625	October 29	Barnett Bank of Hernando County, NA, Hernando County	18716	July 1	Johnson County Bank, National Association, Cleburne
20157	November 21	Terrabank, National Association, Miami	20077	October 1	American National Bank - Corpus Christi, Corpus Christi
20010	July 22	Pacific National Bank, Miami	18644	November 18	Concorde Bank Dallas, National Association, Dallas
18613	October 15	American National Bank, Oakland Park	18638	August 26	Texas Commerce Bank - Brookhollow, National Association, Dallas
20891	October 28	First National Bank and Trust Company, St. Lucie County, Port St. Lucie	18646	September 16	Community National Bank, Detroit
20615	November 20	Sun Bank, Martin County, National Association, Stuart	18640	July 29	Park Central Bank, National Association, Fort Worth
20214	August 12	First National Bank, Tarpon Springs	18660	October 28	Security Bank, National Association - Garland, Garland
KANSAS			20424	September 23	American National Bank of Greenville, Greenville
21003	July 25	National Bank of El Dorado, El Dorado	20507	December 17	First National Bank of Gun Barrel City, Gun Barrel City
20998	July 23	First National Bank of Onaga, Onaga			
KENTUCKY					
20068	September 12	Tri-County National Bank, Corbin			

New national bank charters issued, by states, July 1 to December 31, 1985—continued

<i>Charter number</i>	<i>Date open</i>	<i>Title and location of bank</i>	<i>Charter number</i>	<i>Date open</i>	<i>Title and location of bank</i>
20509	November 4	Klein Bank-Cypresswood, National Association, Harris County	18657	September 6	The Waller Bank, National Association, Waller
20016	July 22	First National Bank of Highlands, Highlands			VIRGINIA
20220	October 15	American National Bank-Post Oak Houston	20578	October 18	Bank 2000, National Association, McLean
20003	October 15	Fondren National Bank, Houston			WASHINGTON
20471	November 1	Memorial Bank, National Association, Houston	18710	July 24	Edmonds National Bank, Edmonds
20005	December 12	Old Braeswood National Bank, Houston	18711	September 26	National Bank of Tukwila, Tukwila
21008	August 1	Peoples Bank, National Association, Houston			WEST VIRGINIA
20001	September 27	Citizens National Bank, Kerrville	20550	September 23	One Valley National Bank of Hurricane, Hurricane
18652	November 4	La Grange National Bank, La Grange			WISCONSIN
20002	October 8	South Shore National Bank, League City	20841	October 4	Tri City National Bank of Brookfield, Brookfield
202 0	July 15	Lindale National Bank, Lindale			WYOMING
20343	December 2	Liberty National Bank, N Richland Hills	21000	July 25	National Bank of Glenrock, Glenrock
20641	October 15	Glenagles National Bank, Plano			PUERTO RICO
20182	November 12	Heights National Bank, San Antonio	18719	December 11	Banco Nacional, National Association, Hato Rey San Juan
20651	December 18	Republicbank Countryside, National Association, San Antonio			
18649	December 2	Tomball National Bank, Tomball			
20474	November 8	Greater Texas Bank, National Association, Travis County			
20218	November 12	Lake Area National Bank, Trinity			

State-chartered banks converted to national banks, by states, July 1 to December 31, 1985
(Dollar amounts in thousands)

<i>Title and location of bank</i>	<i>Effective date</i>	<i>Total assets</i>
Total: 13 banks		\$1,356,674
ALABAMA		
Metrobank, National Association, Birmingham (18629), conversion of Metrcbank, Birmingham ..	Aug 30	97,593
ARIZONA		
American National Bank of Arizona, Phoenix (20670), conversion of American Bank, Phoenix ..	Aug 28	36,000
ARKANSAS		
The First National Bank of Conway County, Morrilton (20219), conversion of The First State Bank, Morrilton ..	Sept 3	6,647
Security National Bank, Sidney (20869), conversion of Bank of Sidney, Sidney ..	Oct 15	3,264
Peoples National Bank, Van Buren (20191), conversion of Peoples Bank & Trust Company, Van Buren ..	Oct 31	61,777
FLORIDA		
Pan American Bank of Jacksonville, National Association, Jacksonville (21022), conversion of Pan American Bank, Jacksonville ..	Nov 1	13,412
IOWA		
Farmers National Bank, Boyd (20876), conversion of Farmers State Bank, Bayard ..	Aug 30	7,180
LOUISIANA		
Bankers Trust of Louisiana, National Association, Kenner (20879), conversion of Bankers Trust of Louisiana, Kenner ..	Oct 15	26,490
MISSOURI		
United Missouri Bank of St. Louis County, National Association, Clayton (21028), conversion of United Missouri Bank of St. Louis County, Clayton ..	Dec 2	207,886
NORTH DAKOTA		
First Bank Cando, National Association, Cando (20587), conversion of First State Bank of Cando, Cando ..	July 31	40,916
OREGON		
Pioneer Trust Bank, National Association (21060), conversion of Pioneer Trust Bank, Salem ..	Dec 20	66,824
RHODE ISLAND		
Bank of New England/Old Colony, National Association, Providence (18724), conversion of Old Colony Bank, Providence ..	Dec 26	776,994
WYOMING		
Northwest Bank East Cheyenne, National Association, Cheyenne (18574), conversion of Wyoming State Bank, Cheyenne ..	Sept 30	11,691

Mergers,* calendar 1985

	Transactions involving two or more operating banks	Transactions involving a single operating bank	Total
Applications received	156	130	296
Approvals issued	144	136	280
Denials issued	3	0	3
Abandoned	0	0	0
Consummated	154	134	288

* Merger is a generic term which includes mergers, consolidations, and purchases and assumptions

Mergers consummated involving two or more operating banks, July 1 to December 31, 1985
(Dollar amounts in thousands)

<i>Date Consummated</i>	<i>Merging banks Resulting bank</i>	<i>Total assets</i>
ALABAMA		
	Amsouth Bank National Association, Birmingham (3185)	\$4,083,069
	City National Bank of Dothan, Dothan (14664)	38,271
	First National Bank of Eufaula, Eufaula (14614)	33,814
	First National Bank of Alabama-Huntsville, Huntsville (8765)	177,562
August 30	The First National Bank of Mobile, Mobile (1595)	651,025
	Amsouth Bank, National Association, Birmingham (3185)	4,935,113
	National Bank of Commerce of Birmingham, Birmingham (15303)	137,001
August 31	Metrobank, National Association, Birmingham (18629)	97,593
	National Bank of Commerce of Birmingham, Birmingham (18629)	234,594
	Amsouth Bank National Association, Birmingham (3185)	4,726,808
	Amsouth Bank of Jacksonville, Jacksonville	45,926
December 7	Amsouth Bank, National Association, Birmingham (3185)	4,758,125
CALIFORNIA		
	Westamerica Bank, N.A., San Rafael (11282)	930,951
October 31	Westamerica Trust Company, San Rafael	1,146
	Westamerica Bank N.A., San Rafael (11282)	930,951
	Sacramento First National Bank, Sacramento (18437)	13,135
December 28	Sacramento Valley Bank, National Association, Sacramento (17120)	57,054
	Sacramento First National Bank, Sacramento (18437)	75,057
COLORADO		
	Gilpin County Bank, Black Hawk	4,483
July 19	The First National Bank in Golden, Golden (14384)	155,837
	First Interstate Bank of Golden, National Association, Golden (14384)	160,310
	The Colorado Springs National Bank, Colorado Springs (8572)	214,137
September 3	United Bank of Colorado Springs, Colorado Springs	83,986
	United Bank of Colorado Springs National Association, Colorado Springs (8572)	298,123
	The Aurora Bank, Aurora	18,775
November 1	Omnibank III, National Association, Aurora (21075)	NA
	Omnibank III, National Association, Aurora (21075)	NA
CONNECTICUT		
	The Citizens Bank and Trust Company of Glastonbury, Glastonbury	96,629
September 30	The Connecticut Bank and Trust Company, National Association, Hartford (4)	6,468,888
	The Connecticut Bank and Trust Company, National Association, Hartford (4)	6,565,517
FLORIDA		
	Atlantic National Bank of Florida, Jacksonville (6888)	3,752,063
July 1	Guardian Bank, Pinellas County	76,558
	Atlantic National Bank of Florida, Jacksonville (6888)	3,820,871
	Barnett Bank of Marion County National Association, Ocala (10578)	254,160
July 18	Cedar Key State Bank, Cedar Key	2,872
	Barnett Bank of Marion County, National Association, Ocala (10578)	256,624
	First Ruskin Bank, Ruskin	70,838
August 12	Barnett Bank of Tampa, National Association, Tampa (16437)	679,504
	Barnett Bank of Tampa, National Association, Tampa (16437)	7,503,424
	Palm State Bank, Pinellas County	32,831
	Landmark Union Trust Bank of St. Petersburg, National Association, St. Petersburg (15507)	530,048
August 16	Gulf Coast Bank of Pinellas, Madeira Beach	86,439
	Landmark Union Trust Bank of St. Petersburg, National Association, St. Petersburg (15507)	530,048
	The Lewis State Bank, Tallahassee	101,747
	The First National Bank in Punta Gorda, Punta Gorda (14917)	135,489
	Citizens Bank and Trust Company, Quincy	31,684
	Citizens First National Bank of Hernando County, Spring Hill (18020)	8,303
	The First American Bank of Pensacola, Pensacola	134,039
	Citizens First National Bank of Citrus County, Inverness (15778)	79,755
	The First National Bank of Kissimmee, Kissimmee (12871)	100,332
	First National Bank of Lakeland, Lakeland (15066)	102,858
	Lake County Bank, Leesburg	30,678
	Citizens First National Bank of Crystal River, Crystal River (16456)	74,855
	Lee County Bank, Fort Myers	264,366
	First National Bank of Florida, Tampa (3497)	2,656,600
September 1	The First National Bank of Winter Haven, Winter Haven (16261)	43,828
	First National Bank of Florida, Tampa (3497)	3,705,573
	NCNB National Bank of Florida, Blountstown (18140)	39,709
	NCNB National Bank of Florida, Jay (16012)	39,855
October 18	NCNB National Bank of Florida, Tampa (17775)	4,898,342
	NCNB National Bank of Florida, Tampa (17775)	4,961,361
	Pan American Bank of Miami Shores National Association, Miami Shores (14639)	59,703
	Pan American Bank National Association, Miami (16442)	1,046,583
	Pan American Bank of Miami, National Association, Miami (14654)	78,651
November 8	Pan American Bank of Dade County National Association, Hialeah (15448)	68,714
	Pan American Bank, National Association, Miami (16442)	1,240,494

Mergers consummated involving two or more operating banks, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

Effective date	Merging banks Resulting bank	Total assets
December 1	Sun Bank/Sarasota National Association, Sarasota (20982)	99,197
	Sun Bank/Sarasota County National Association, Sarasota (17087)	36,888
	Sun Bank/Sarasota, National Association, Sarasota (20982)	136,085
	North First Bank, North Fort Myers	104,206
	The First National Bank in Fort Myers, Fort Myers (14195)	477,249
	The First National Bank in Ft. Myers, Fort Myers Beach (15666)	87,267
December 6	East First National Bank, Fort Myers (15865)	43,346
	First Commercial Bank of Fort Myers, Fort Myers	8,619
	The First National Bank in Fort Myers, Fort Myers (15666)	741,651
GEORGIA		
August 1	The First National Bank of Atlanta, Atlanta (1559)	6,426,324
	First National Bank of Gwinett County, Lawrenceville (11936)	146,425
	The First National Bank of Atlanta, Atlanta (1559)	6,560,533
August 1	The Citizens and Southern National Bank, Rome (13068)	7,353,078
	The Rome Bank and Trust Company, Rome	76,349
	The Citizens and Southern National Bank, Savannah (13068)	7,425,850
	The Citizens and Southern Bank of Dublin, Dublin	103,013
	The Citizens and Southern Bank of West Georgia, La Grange	107,651
	The Citizens and Southern Newnan Bank, Newnan	66,287
December 31	The Citizens and Southern Bank of Thomaston, Thomaston	59,778
	The Citizens and Southern Bank of Albany, Albany	172,714
	The Citizens and Southern National Bank, Atlanta (13068)	7,624,138
	The Citizens and Southern National Bank, Savannah (13068)	8,075,024
ILLINOIS		
August 5	Commercial National Bank of Peoria, Peoria (3296)	459,359
	Pioneer Bank of Peoria, Peoria	17,025
	Commercial National Bank of Peoria, Peoria (3296)	474,917
August 31	First Community National Bank, Rockford (15545)	52,998
	The Guaranty National Bank of Rockford, Rockford (16684)	22,110
	First Community National Bank, Rockford (16684)	75,108
September 30	The First National Bank of Freeburg, Freeburg (7491)	27,012
	The First National Bank of Smithton, Smithton (13525)	11,595
	The First National Bank of Freeburg, Freeburg (7941)	38,607
October 21	National Bank of Joliet, Joliet (14510)	96,968
	Union National Bank and Trust Company of Joliet, Joliet (14439)	212,490
	First Midwest Bank/Joliet, National Association, Joliet (14439)	309,458
November 18	American National Bank and Trust Co., Rockford (9823)	403,536
	The Illinois National Bank & Trust Co. of Rockford (13652)	273,131
	The Illinois National Bank and Trust Co. of Rockford, Rockford (13652)	660,667
INDIANA		
November 22	The Indiana National Bank, Indianapolis (984)	3,394,104
	Allen County Bank and Trust Company, Leo	10,000
	The Indiana National Bank, Indianapolis (984)	3,404,104
IOWA		
November 1	Early Savings Bank, Early	14,800
	The Citizens First National Bank of Storm Lake, Storm Lake (10034)	122,200
	The Citizens First National Bank of Storm Lake, Storm Lake (10034)	137,000
KANSAS		
July 2	Madison Bank, Madison	9,300
	The First National Bank of Madison, Madison (5529)	13,200
	The First National Bank of Madison, Madison (5529)	21,500
July 23	First National Bank of Onaga, Onaga (20998)	NA
	The First National Bank of Onaga, Onaga (12353)	21,900
	First National Bank of Onaga, Onaga (20998)	NA
July 25	National Bank of El Dorado, El Dorado (21003)	NA
	Citizens State Bank of El Dorado, El Dorado	39,100
	National Bank of El Dorado, El Dorado (21003)	NA
MASSACHUSETTS		
July 19	The First National Bank of Boston, Boston (200)	18,636,703
	Bank of Boston-Middlesex, Burlington	285,768
	The First National Bank of Boston, Boston (200)	18,367,026
September 20	Bank of Boston-Essex National Association, Haverhill (484)	147,552
	The First National Bank of Boston, Boston (200)	17,967,909
	The First National Bank of Boston, Boston (200)	18,115,461
MICHIGAN		
July 1	FMB-First Michigan Bank-Metro National Association, Grand Rapids (16505)	48,696
	FMB-First Michigan Bank-Grand Rapids, Grand Rapids	5,543
	FMB-First Michigan Bank-Grand Rapids, National Association, Grand Rapids (16505)	54,239

Mergers consummated involving two or more operating banks, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

Effective date	Merging banks Resulting bank	Total assets
MISSISSIPPI		
October 1	Brookhaven Bank and Trust Company, Brookhaven	127,113
	Trustmark National Bank, Jackson (10523)	1,699,321
	Trustmark National Bank, Jackson (10523)	1,904,982
MISSOURI		
October 11	Commerce Bank of St. Joseph, National Association, St. Joseph (16947)	72,800
	The First National Bank of St. Joseph, St. Joseph (4939)	236,400
	Commerce Bank of St. Joseph, National Association, St. Joseph (16947)	309,200
	Boatmen's Bank of Concord Village, St. Louis County	113,428
	Boatmen's Bank of St. Louis County, St. Louis County	324,327
	Boatmen's Hampton Bank, St. Louis	242,446
	The Boatmen's National Bank of St. Louis, St. Louis (12916)	1,504,807
	Boatmen's Bank of Webster Groves, Webster Groves	108,989
	Boatmen's Bank of West County, Ballwin	87,084
	Boatmen's Trust Company, Clayton	374
	Boatmen's Bank of Crestwood, Crestwood	120,893
	The Boatmen's National Bank of North St. Louis County, Florissant (16262)	52,311
	Boatmen's Bank of Jennings, Jennings	95,357
	The Boatmen's National Bank of St. Louis, St. Louis (12916)	2,614,535
NEBRASKA		
October 1	Norwest Bank Grand Island National Association, Grand Island (2779)	140,958
	Norwest Bank Hastings National Association, Hastings (13515)	182,943
	Norwest Bank Norfolk National Association, Norfolk (14339)	82,646
	Norwest Bank Nebraska National Association, Omaha (2978)	831,506
	Norwest Bank Omaha West, Omaha	203,381
	Norwest Capital Management & Trust Co., Nebraska, Omaha	5,690
	Norwest Bank Nebraska, National Association, Omaha (2978)	1,411,586
	Farmers & Traders Bank, Waco	8,365
	The First National Bank of York, York (2683)	96,005
	Blue River Bank, McCool Junction	6,168
	The First National Bank of Bradshaw, Bradshaw (9097)	7,027
	The First National Bank of York, York (2683)	116,294
	First National Bank in Ord, Ord (13557)	35,200
	Farmers State Bank, Sargent	13,860
December 19	First National Bank in Ord, Ord (13557)	49,000
NEW JERSEY		
August 5	Peoples National Bank of North Jersey, Denville Township (15646)	134,207
	First Jersey National Bank, Jersey City (374)	71,274
	The First Jersey National Bank/West, Denville (15646)	134,207
September 28	National Bank & Trust Company of Gloucester County, Woodbury (1199)	404,936
	First Fidelity Bank National Association South Jersey, Burlington (1222)	1,214,479
	First Fidelity Bank, National Association South Jersey, Burlington (1222)	1,619,415
November 29	Peoples Bank, N.A., Belleville (12019)	183,518
	Carteret Bank and Trust Company, Carteret	69,358
	Peoples Bank, National Association, Belleville (12019)	252,876
NEW MEXICO		
September 12	First National Bank of Chaves County, Roswell (21013)	17,352
	Roswell Bank National Association, Roswell (17472)	103,229
	First National Bank of Chaves County, Roswell (21013)	120,981
	First National Bank of Ruidoso, Ruidoso (21109)	NA
December 16	First National Bank of Lincoln Co., Ruidoso (17376)	41,609
	First National Bank of Ruidoso, Ruidoso (21109)	NA
NEW YORK		
September 13	Peoples National Bank of Rockland County, Highland (16319)	66,000
	The First National Bank of Highland, Monsey (5336)	136,860
	The First National Bank of Highland, Highland (5336)	143,460
NORTH CAROLINA		
December 1	First Union National Bank, Charlotte (15650)	7,746,964
	The Northwestern Bank, North Wilkesboro	2,802,211
	First Union National Bank, Charlotte (15650)	10,549,175
OHIO		
October 1	The Arcanum National Bank, Arcanum (14188)	29,031
	Greenville National Bank, Greenville (13944)	80,927
	Greenville National Bank, Greenville (13944)	107,374
	The Piqua National Bank and Trust Company, Piqua (1006)	76,366
December 30	Western Ohio National Bank & Trust Company, Covington (5530)	33,519
	Heritage National Bank and Trust Company, Piqua (1006)	109,885

Mergers consummated involving two or more operating banks, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

Effective date	Merging banks Resulting bank	Total assets
	OHIO (continued)	
	The Sylvania Bank, Sylvania	303,038
December 31	First Buckeye Bank, National Association, Plymouth (2577)	487,708
	First Buckeye Bank, National Association, Mansfield (2577)	791,978
	OREGON	
	Business Banking Corporation, Beaverton	14,940
August 1	Valley National Bank of Oregon, Forest Grove (8554)	55,570
	Valley National Bank of Oregon, Forest Grove (8554)	70,690
	Bank of Lake Oswego, Lake Oswego	11,323
September 30	United States National Bank of Oregon, Portland (4514)	6,681,353
	United States National Bank of Oregon, Portland (4514)	6,689,695
	PENNSYLVANIA	
	Easton National Bank & Trust Company, Easton (20894)	288,866
August 17	Merchants Bank National Association Allentown, Allentown (6645)	928,869
	Merchants Bank, National Association, Allentown (6645)	928,869
	Commonwealth Bank and Trust Company National Association, Williamsport (175)	632,939
October 19	The First National Bank of Milton, Milton (253)	32,441
	Commonwealth Bank and Trust Company, National Association, Williamsport (175)	664,865
October 21	First Eastern Bank, National Association, Wilkes-Barre (30)	1,199,092
	The Portland National Bank, Portland (13606)	31,608
	First Eastern Bank, National Association, Wilkes-Barre (30)	1,230,700
November 1	Mellon Bank (Central) National Association, State College (18211)	582,737
	The First National Bank of Mapleton, Mapleton (11244)	49,437
	Mellon Bank Central National Association, Mapleton (11244)	631,058
November 23	The Beech Creek National Bank, Beech Creek (13205)	16,742
	Commonwealth Bank and Trust Company, National Association, Williamsport (175)	596,353
	Commonwealth Bank and Trust Company, National Association, Williamsport (175)	612,669
	The First National Bank of Midland, Midland (8311)	22,609
December 9	The Century National Bank and Trust Company, Rochester (4549)	98,509
	The National Bank of Beaver County, Monaca (5879)	43,727
December 30	The Century National Bank and Trust Company, Rochester (4549)	186,645
	Bank of Central Pennsylvania, Montoursville	146,714
	Commonwealth Bank and Trust Company, National Association, Williamsport (175)	535,337
	Commonwealth Bank and Trust Company, National Association, Williamsport (175)	717,632
	SOUTH CAROLINA	
	Bank of Summerton, Summerton	4,931
September 16	The National Bank of South Carolina, Sumter (10660)	275,332
	The National Bank of South Carolina, Sumter (10660)	283,198
	SOUTH DAKOTA	
	Sunbank of South Dakota, Sioux Falls	18,260
October 11	United National Bank, Sioux Falls (15639)	57,859
	United National Bank, Sioux Falls (15639)	74,459
	United National Bank, Sioux Falls (15639)	57,859
October 17	United National Bank, Castlewood (16470)	21,626
	United National Bank, Sioux Falls (15639)	77,834
	TENNESSEE	
	First Farmers and Merchants National Bank of Columbia, Columbia (14710)	132,392
September 5	The Bank of Loretto, Loretto	25,000
	First Farmers and Merchants National Bank of Columbia, Columbia (14710)	132,392
	First American National Bank of Chattanooga, Chattanooga (17936)	37,543
October 1	First American National Bank Cleveland, Cleveland (1666)	106,182
	First American National Bank, Chattanooga (1666)	143,725
	TEXAS	
	MBank Greens Parkway National Association, Houston (18119)	8,895
July 1	MBank Greenspoint National Association, Houston (15802)	41,917
	MBank Greenspoint, National Association, Houston (18119)	50,812
August 1	Peoples Bank, National Association, Houston (21008)	NA
	Riverside National Bank of Houston, Houston (15145)	18,393
	Peoples Bank, National Association, Houston (21008)	NA
	VIRGINIA	
	National Bank and Trust Company, Charlottesville (10618)	385,032
July 1	Bank of Goochland, Goochland	50,947
	Bank of Powhatan, Powhatan	54,347
	Southern Bank, Richmond	295,381
	Jefferson National Bank, Winchester (6031)	255,748
	Jefferson National Bank, Charlottesville (6031)	1,041,300

Mergers consummated involving two or more operating banks, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

Effective date	Merging banks Resulting bank	Total assets
	VIRGINIA (continued)	
September 14	Dominion Bank of the Cumberlands National Association, Haysi (18032)	248,959
	Dominion Bank National Association, Roanoke (2737)	2,311,120
	Dominion Bank, National Association, Roanoke (2737)	2,549,154
	Sovran Bank, National Association, Richmond (1111)	8,102,753
December 27	Virginia Southern Bank, Clarksville	46,644
	Sovran Bank, National Association, Richmond (1111)	8,102,753
	WASHINGTON	
August 1	Western National Bank, Mill Creek (17467)	7,550
	Seattle-First National Bank, Seattle (11280)	9,031,588
	Seattle-First National Bank, Seattle (11280)	9,034,916
	Rainier National Bank, Seattle (4375)	6,762,132
September 28	Suburban State Bank, Silverdale	21,306
	Rainier National Bank, Seattle (4375)	6,783,438
	WEST VIRGINIA	
July 1	The Parkersburg National Bank, Parkersburg (1427)	315,767
	Heritage National Bank, Huntington (16893)	33,163
	The Parkersburg National Bank, Parkersburg (1427)	348,930
	Citizens Bank of Weirton, Weirton	20,008
July 12	Wheeling National Bank, Wheeling (16696)	129,703
	Wheeling National Bank, Wheeling (16696)	149,943
	Huntington Trust & Savings Bank, Huntington	88,832
August 24	The First Huntington National Bank, Huntington (3106)	421,450
	The First Huntington National Bank, Huntington (3106)	421,450
	Union Central National Bank, Vienna (16137)	9,784
	The Parkersburg National Bank, Parkersburg (1427)	302,966
October 1	United Bank, Inc., Parkersburg	7,961
	The Parkersburg National Bank, Parkersburg (1427)	315,966
	WISCONSIN	
July 12	First Bank Southeast of Lake Geneva, N.A., Lake Geneva (3125)	93,488
	Wisconsin State Bank, Delavan	25,221
	First Bank of Southeast Lake Geneva, National Association, Lake Geneva (3125)	116,819
	The First National Bank of Chippewa Falls, Chippewa Falls (2125)	70,722
July 18	State Bank of Boyd, Boyd	11,966
	The First National Bank of Chippewa Falls, Chippewa Falls (2125)	81,857
	Independence Bank Kenosha National Association, Kenosha (12541)	103,000
September 14	Marine First National Bank of Racine, Racine (457)	166,000
	Marine Bank South, National Association, Racine (457)	267,000
	Independence Bank Elkhorn (N.A.) Association, Elkhorn (873)	65,300
September 28	Burlington Marine Bank, Burlington	35,200
	Marine Bank Southwest, National Association Elkhorn (873)	100,500
	First National Bank in Manitowoc, Manitowoc (4975)	88,282
October 1	St. Nazianz State Bank, St. Nazianz	10,660
	First National Bank in Manitowoc, Manitowoc (4975)	98,460
	Heritage Bank of West Bend, West Bend	19,351
November 1	M&I First National Bank, West Bend (11060)	119,313
	M&I First National Bank, West Bend (11060)	138,664
	WYOMING	
July 25	National Bank of Glenrock, Glenrock (21000)	NA
	First National Bank of Glenrock, Glenrock (15195)	20,662
	National Bank of Glenrock, Glenrock (21000)	NA

Mergers* consummated involving a single operating bank, July 1 to December 31, 1985
(Dollar amounts in thousands)

<i>Date consummated</i>	<i>Merging banks Resulting bank</i>	<i>Total assets</i>
	ALABAMA	
December 17	New Columbiana National Bank, Columbiana First National Bank of Columbiana, Columbiana First National Bank of Columbiana, Columbiana (14590)	\$ 69,731
	ALASKA	
July 22	Rainier Interim Bank, National Association, Anchorage Rainier Bank Alaska, National Association, Anchorage Rainier Bank Alaska, National Association, Anchorage (18023)	79,607
	CONNECTICUT	
August 30	New American National Bank, Hamden American National Bank, Hamden American National Bank, Hamden (15496)	172,962
	FLORIDA	
October 1	Pan American Bank of Sarasota, Sarasota Sun Bank/Sarasota, National Association, Sarasota Sun Bank/Sarasota, National Association, Sarasota (20982)	122,392
	GEORGIA	
July 5	First National Bank of Paulding County, Dallas Paulding Interim National Bank, Dallas First National Bank of Paulding County, Dallas (12105) Alma Interim National Bank, Alma	56,925
August 30	The First National Bank of Alma, Alma First National Bank of Alma, Alma (16258) First National Bank of Camden Interim Bank, St. Marys First National Bank of Camden County, St. Marys	24,398
September 13	First National Bank of Camden County, St. Marys (17463) Interim National Bank of Louisville, Louisville The First National Bank of Louisville, Louisville	17,061
November 30	The First National Bank of Louisville, Louisville (6207)	36,098
	ILLINOIS	
July 9	FNB National Bank of Normal, Normal The First National Bank of Normal, Normal The First National Bank of Normal, Normal (4930) BNB National Bank, Barrington	76,281
August 1	The First National Bank and Trust Company of Barrington, Barrington The First National Bank and Trust Company of Barrington, Barrington (11283) First National Bank of Lake Bluff Interim National Bank, Lake Bluff The First National Bank of Lake Bluff, Lake Bluff	341,945
August 30	First National Bank of Lake Bluff, Lake Bluff (15502) Republic National Bank of Palmer, Danville Palmer-American National Bank of Danville, Danville	34,653
August 30	Palmer-American National Bank of Danville, Danville (4731)	161,704
August 30	Lake Forest National Interim National Bank, Lake Forest Lake Forest National Bank, Lake Forest	
August 31	Lake Forest National Bank, Lake Forest (15886) interim National Bank in Mascoutah, Mascoutah The First National Bank in Mascoutah, Mascoutah First National Bank in Mascoutah, Mascoutah (13795)	15,525
	FNBW National Bank, Waterloo The First National Bank of Waterloo, Waterloo The First National Bank of Waterloo, Waterloo (10180)	38,899
October 1	FM National Bank, Paxton Farmers-Merchants National Bank of Paxton, Paxton Farmers-Merchants National Bank of Paxton, Paxton (14458)	49,780
October 31	North Shore Interim National Bank of Chicago, Chicago The North Shore National Bank of Chicago, Chicago The North Shore National Bank of Chicago, Chicago (14357)	30,154
November 22	Western Interim National Bank of Cicero, Cicero Western National Bank of Cicero, Cicero Western National Bank of Cicero, Cicero (14438)	215,960
November 22	New First National Bank in Lincoln, Lincoln First National Bank in Lincoln, Lincoln First National Bank in Lincoln, Lincoln (14118)	182,357
November 22	Interim National Bank of Millstadt, Millstadt The First National Bank of Millstadt, Millstadt, Illinois First National Bank of Millstadt, Millstadt (8425)	75,133
December 31	Republic National Bank Neoga, Neoga Cumberland County National Bank in Neoga, Neoga Cumberland County National Bank in Neoga, Neoga (13892)	29,123
December 31		16,230

Mergers* consummated involving a single operating bank, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

<i>Date consummated</i>	<i>Merging banks Resulting bank</i>	<i>Total assets</i>
	INDIANA	
September 16	Thorntown National Bank, Thorntown The Home National Bank of Thorntown, Thorntown The Home National Bank of Thorntown, Thorntown (5842)	18,360
October 4	Davies National Bank, Washington The Peoples National Bank and Trust Company of Washington, Washington The Peoples National Bank and Trust Company of Washington, Washington (3842)	60,392
October 30	First National Bank of Clark County, Charlestown CCI Bank, National Association, Charlestown First National Bank of Clark County, Charlestown (17837)	62,466
December 10	Old-First Bank-National Association, Bluffton Old-First National Bank in Bluffton, Bluffton Old-First National Bank in Bluffton, Bluffton, Indiana, Bluffton (13305)	39,139
December 16	Warrick Interim National Bank, Boonville Warrick National Bank of Boonville, Boonville Warrick National Bank, Boonville (14218)	74,307
December 31	Brookville Interim, National Association, Brookville The Franklin County National Bank of Brookville, Brookville The Franklin County National Bank of Brookville, Brookville (5629)	54,088
	IOWA	
December 16	FN Bank, National Association, Dubuque The First National Bank of Dubuque, Dubuque The First National Bank of Dubuque, Dubuque (317)	204,135
December 31	First Capital National Bank, Iowa City, Iowa, Iowa City First National Bank, Iowa City, Iowa, Iowa City First National Bank, Iowa City, Iowa, Iowa City (13607)	232,978
	KANSAS	
December 30	Citizens Interim National Bank of Emporia, Emporia Citizens National Bank and Trust Company, Emporia Citizens National Bank and Trust Company, Emporia (5498)	101,254
	KENTUCKY	
December 16	First Kentucky Bank of Bowling Green, National Association, Bowling Green The American National Bank and Trust Company of Bowling Green, Bowling Green The American National Bank & Trust, Bowling Green (9365)	186,259
December 27	The National Acquisition Bank of Cynthiana, Cynthiana The National Bank of Cynthiana, Cynthiana The National Bank of Cynthiana, Cynthiana (1900)	56,326
	LOUISIANA	
September 27	First Lake Charles National Bank, Lake Charles The First National Bank of Lake Charles, Lake Charles First Lake Charles National Bank, Lake Charles (4154)	159,466
November 15	Riverlands National Bank in LaPlace, LaPlace New Riverlands National Bank in La Place, La Place New Riverlands National Bank in La Place, La Place (15279)	57,800
	MARYLAND	
July 1	First United Interim National Bank, Oakland First United National Bank & Trust, Oakland First United National Bank and Trust, Oakland (5623)	199,413
	MASSACHUSETTS	
July 1	First Bristol County National Bank Attleboro Madison Bank, National Association, Taunton First Bristol County National Bank, Taunton (2232)	317,651
	MICHIGAN	
July 1	First of America Bank-Oakland/Macomb, National Association, Pontiac Community National Bank of Pontiac, Pontiac First of America Bank-Oakland/Macomb, National Association, Pontiac (13739)	579,601
August 1	NBY Bank, National Association, Ypsilanti The National Bank of Ypsilanti, Ypsilanti The National Bank of Ypsilanti, Ypsilanti (13807)	85,260
December 31	CNB Interim, National Association, Cheboygan Citizens National Bank of Cheboygan, Cheboygan Citizens National Bank of Cheboygan, Cheboygan (13522)	95,960
	MISSOURI	
December 31	KNB National Bank, Kennett Kennett National Bank, Kennett Kennett National Bank, Kennett (15155)	43,930

Mergers* consummated involving a single operating bank, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

<i>Date consummated</i>	<i>Merging banks Resulting bank</i>	<i>Total assets</i>
NEW HAMPSHIRE		
August 30	New Pemigewasset National Bank, Plymouth The Pemigewasset National Bank of Plymouth, Plymouth The Pemigewasset National Bank of Plymouth, Plymouth (2587)	38,201
November 30	The Souhegan National Bank of Milford, Milford New Souhegan National Bank, Milford The Souhegan National Bank of Milford, Milford (1070)	75,526
NEW JERSEY		
July 1	New Glendale National Bank, Voorhees Township Glendale National Bank of New Jersey, Voorhees Glendale National Bank of New Jersey, Voorhees Township (16164)	84,685
NEW YORK		
July 31	NBV National Bank, Vernon The National Bank of Vernon, Vernon The National Bank of Vernon, Vernon (1264)	21,984
November 8	FNBR National Bank, Rhinebeck The First National Bank of Rhinebeck, Rhinebeck The First National Bank of Rhinebeck, Rhinebeck (1157)	54,629
NORTH CAROLINA		
July 2	Center National Bank, Asheboro The First National Bank of Randolph County, Asheboro First National Bank of Randolph County, Asheboro (8953)	94,113
OHIO		
October 18	The American National Bank of Noblesville, Akron The National Bank of Noblesville, Akron The American National Bank of Noblesville, Akron (9756)	194,797
PENNSYLVANIA		
July 3	Bernville Interim National Bank, Bernville Bernville Bank National Association, Bernville Bernville Bank, National Association, Bernville (17721)	13,000
August 16	Interim Dale National Bank, Dale Borough The Dale National Bank, Johnstown Dale National Bank, Dale Borough (12967)	107,194
September 4	CBSP National Bank, Littlestown Community National Bank of Southern Pennsylvania, Littlestown Community National Bank of Southern Pennsylvania, Littlestown (9207)	51,311
October 1	The Citizens National Bank of Greencastle, Greencastle The Citizens Interim National Bank of Greencastle, Greencastle The Citizens National Bank of Greencastle (5857)	93,128
December 13	Western Pennsylvania Bank, National Association, Berlin National Bank of Western Pennsylvania, Berlin National Bank of Western Pennsylvania, Berlin (5307)	103,520
December 14	Interim First National Bank of Leechburg, Leechburg The First National Bank of Leechburg, Leechburg First National Bank of Leechburg, Leechburg (5502)	91,614
TEXAS		
October 1	MBank Gulf Freeway National Association, Houston MBank Houston Southeast, Houston MBank Gulf Freeway, National Association, Houston (14890)	85,523
VERMONT		
July 5	New Caledonia National Bank, Danville The Caledonia National Bank of Danville, Danville The Caledonia National Bank of Danville, Danville (1573)	37,631
November 6	The New National Bank of Middlebury, Middlebury The National Bank of Middlebury, Middlebury The National Bank of Middlebury, Middlebury (1195)	39,620
November 30	New Woodstock National Bank, Woodstock The Woodstock National Bank, Woodstock The Woodstock National Bank, Woodstock (1133)	41,989
VIRGINIA		
October 1	Blueridge National Bank, Washington The Rappahannock National Bank of Washington, Washington The Rappahannock National Bank of Washington, Washington (6443)	11,062
WASHINGTON		
October 15	Pioneer National Bank, Yakima Pioneer National Bank, Yakima Pioneer National Bank, Yakima (16663)	21,201

Mergers* consummated involving a single operating bank, July 1 to December 31, 1985—continued
(Dollar amounts in thousands)

<i>Date consummated</i>	<i>Merging banks Resulting bank</i>	<i>Total assets</i>
	WEST VIRGINIA	
July 1	First Bank of Ripley, National Association, Ripley The First National Bank of Ripley, Ripley The First National Bank of Ripley, Ripley (10762)	52,358
October 21	Belle National Bank, Belle The First National Bank of Belle, Belle The First National Bank of Belle, Belle (15385)	43,245
December 29	BKTWW, National Association, Sophia Gulf National Bank, Sophia Gulf National Bank, Sophia (16524)	19,324
December 31	ANB National Bank, Logan American National Bank, Logan American National Bank, Logan (17073)	23,905
December 31	Cameron Interim, National Association, Cameron The First National Bank of Cameron, Cameron The First National Bank of Cameron, Cameron (6020)	17,848
December 31	Brooke National Bank, Wellsburg Wellsburg National Bank, Wellsburg Brooke National Bank, Wellsburg (14295)	41,080
	WISCONSIN	
July 1	CC National Bank, Portage The First National Bank of Portage, Portage The First National Bank of Portage, Portage (4234)	72,827
October 7	UNB Bank, National Association, Hales Corners University National Bank, Milwaukee University National Bank, Milwaukee (15878)	30,205

National banks converted to state banks, July 1 to December 31, 1985
(Dollar amounts in thousands)

<i>Title and location of bank</i>	<i>Effective date</i>	<i>Total assets</i>
FLORIDA Dixie National Bank, Coral Gables (15224), converted to Professional Savings Bank	September 30	\$ 67 062
ILLINOIS Farmers Merchants National Bank of Carlinville, Carlinville (13966), converted to Farmers and Merchants Bank of Carlinville	July 1	43 565
MARYLAND Farmers and Merchants National Bank of Hagerstown, Hagerstown (17357), converted to Farmers and Merchants Bank of Hagerstown	August 1	123 000
MINNESOTA National Bank of Commerce in Mankato, Mankato (14220), converted to Bank of Commerce	September 16	49 952
MISSOURI First National Bank, St. Robert (15362), converted to First State Bank of St. Robert	September 13	16 695
TEXAS First National Bank in Childress, Childress (12666), converted to First Bank and Trust of Childress	October 1	1 870 587
First City National Bank of Floresville, Floresville (6320), converted to Bank of Floresville	December 21	44 984
First National Bank of Itasca, Itasca (4461), converted to Itasca State Bank	August 1	670 655
First National Bank of Memphis, Memphis (6107), converted to First Bank and Trust of Memphis	October 1	38 696

National banks merged or consolidated with state banks, by states, July 1 to December 31, 1985
(Dollar amounts in thousands)

<i>Title and location of bank</i>	<i>Effective date</i>	<i>Total assets of national banks</i>
ALABAMA		
First National Bank of Jacksonville, Jacksonville (4319), merged into AmSouth Bank of Jacksonville	July 6	\$ 43,290
First Alabama Bank of Phenix City, N.A., Phenix City (15053), merged into First Alabama Bank, Montgomery	October 12	39,226
FLORIDA		
Tower Bank, N.A., Hialeah Gardens (17746), merged into Bayshore Bank of Florida, Miami	October 8	20,523
INDIANA		
First National Bank of Coatesville, Coatesville (8447), merged into Mid State Bank of Hendricks County, Danville	September 30	14,998
MISSOURI		
Lake National Bank, Lake Ozark (17700), merged into The Central Trust Bank, Jefferson City	December 13	19,795
NEW HAMPSHIRE		
First Citizens National Bank, Newport (888), merged into BankEast, Manchester	December 1	28,170
NEW MEXICO		
Moncor Bank, N.A., Hobbs (14628), merged into United Bank of Lea County, Hobbs	August 30	229,302
OHIO		
Society National Bank of Mid-Ohio, Bucyrus (3274), merged into Trust Corp. Co., Columbus	November 1	68,969
PENNSYLVANIA		
National Bank of Wyalusing, Wyalusing (10606), merged into Peoples State Bank of Wyalusing, Wyalusing	November 4	10,635
TEXAS		
Park West Bank, N.A., Dallas (17962), merged into Park West State Bank, Farmers Branch	August 15	20,544
Hurst National Bank, Hurst (18041), merged into Bank of North Texas, North Richland Hills	July 12	5,014
WEST VIRGINIA		
Citizens National Bank of Follansbee, Follensbee (16097), merged into Wheeling Dollar Bank, Wheeling	July 22	19,664

National banks liquidated under emergency procedures, July 1 to December 31, 1985
(Dollar amounts in thousands)

Name and location of bank	Effective date	Total assets
NEW MEXICO		
First National Bank of Lincoln County Ruidoso (17376), Ruidoso	December 16	\$32,300
OKLAHOMA		
Farmers & Merchants National Bank of Hennessey (10209), Hennessey	December 5	28,500
First National Bank in Terral (11648), Terral	September 30	3,200
TEXAS		
First National Bank of Darrouzett (11158), Darrouzett	July 18	18,300
First National Bank of Teague (13067), Teague	November 15	29,000

NOTE: This table includes all failed banks where FDIC is named receiver and no other depository institution is named as successor.

Assets, liabilities and capital accounts of national banks, September 30, 1984, and September 30, 1985
(Dollar amounts in millions)

	Sept. 30, 1984 4,851 banks	Sept. 30, 1985 4,965 banks*	Change Sept. 30, 1984 - Sept. 30, 1985 Fully consolidated	
	Consolidated foreign and domestic	Consolidated foreign and domestic	Amount	Percent
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	\$ 97,661	\$ 113,798	\$ 16,137	16.5
Interest-bearing balances	85,659	91,279	5,620	6.6
Securities	210,168	226,147	15,979	7.6
Federal funds sold and securities purchased under agreements to resell	57,428	71,995	14,567	25.4
Loans and leases, net of unearned income	890,938	970,706	79,768	9.0
Less allowance for loan and lease losses	10,898	13,785	2,887	26.5
Less allocated transfer risk reserve	46	31	-15	-32.6
Net loans and leases	879,995	956,890	76,895	8.7
Premises and fixed assets	22,792	23,797	1,005	4.4
Other real estate owned	3,183	3,870	687	21.6
Other assets	83,294	77,002	-6,292	-7.6
Total assets	1,440,181	1,564,779	124,598	8.7
Liabilities				
Noninterest-bearing deposits in domestic offices	214,841	252,515	37,674	17.5
Interest-bearing deposits in domestic offices	668,542	736,397	67,855	10.1
Total domestic deposits	883,383	988,912	105,529	11.9
Noninterest-bearing deposits in foreign offices	8,094	9,667	1,573	19.4
Interest-bearing deposits in foreign offices	203,688	201,759	-1,929	-0.9
Total foreign deposits	211,782	211,425	-357	-0.2
Total deposits	1,095,165	1,200,337	105,172	9.6
Federal funds purchased and securities sold under agreements to repurchase	124,122	135,990	11,868	9.6
Interest-bearing demand notes issued to the U.S. Treasury	14,864	9,430	-5,434	-36.6
Other liabilities for borrowed money	36,305	41,345	5,040	13.9
Mortgage indebtedness and liability for capitalized leases	1,738	1,581	-157	-9.0
Subordinated notes and debentures	4,380	8,002	3,622	82.7
All other liabilities	77,539	73,505	-4,034	-5.2
Total liabilities	1,354,113	1,470,190	116,077	8.6
Limited-life preferred stock	78	64	-14	-17.9
Equity Capital				
Perpetual preferred stock	244	358	114	46.7
Common stock	15,824	16,550	726	4.6
Surplus	26,383	29,490	3,107	11.8
Undivided profits and capital reserves	43,848	48,470	4,622	10.5
Cumulative foreign currency translation adjustments	-308	-343	-35	11.4
Total equity capital	85,989	94,525	8,536	9.9
Total liabilities, limited-life preferred stock, and equity capital	1,440,181	1,564,779	124,598	8.7

* Does not include the nonnational bank in the District of Columbia

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Year-to-date income and expenses of national banks, September 30, 1985
(Dollar amounts in millions)

	4.965 banks*	
	Consolidated foreign and domestic	Percent distribution
Interest income:		
Interest and fee income on loans	\$ 83,559	75.2
Income from lease financing receivables	1,229	1.1
Interest income on balances due from depository institutions	6,451	5.8
Interest and dividend income on securities	14,358	12.9
Interest income from assets held in trading accounts	1,443	1.3
Interest income from federal funds sold and securities purchased under agreements to resell	4,037	3.6
Total interest income	111,076	99.9
Interest expense:		
Interest on deposits	58,311	81.6
Expense of federal funds purchased and securities sold under agreements to repurchase	8,189	11.5
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	4,324	6.0
Interest on mortgage indebtedness and obligations under capitalized leases	170	0.2
Interest on notes and debentures subordinated to deposits	481	0.7
Total interest expense	71,474	100.0
Net interest income	39,602	
Provision for loan and lease losses	7,638	
Provision for allocated transfer risk	24	
Noninterest income:		
Service charges on deposit accounts	3,175	21.9
Other noninterest income	11,311	78.1
Total noninterest income	14,486	100.0
Gains and losses on securities not held in trading accounts	582	
Noninterest expense:		
Salaries and employee benefits	17,766	48.3
Expenses of premises and fixed assets (net of rental income)	5,920	16.1
Other noninterest expense	13,097	55.6
Total noninterest expense	36,783	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	10,224	
Applicable income taxes	2,606	
Income before extraordinary items and other adjustments	7,618	
Extraordinary items and adjustments, net of taxes	179	
Net income	7,797	
Total cash dividends declared	3,233	
Recoveries credited to allowance for possible loan losses	1,265	
Losses charged to allowance for possible loan losses	6,807	
Net loan losses	5,542	
Ratio to total operating income:		
Interest on deposits	46.4	
Other interest expense	10.5	
Salaries and employee benefits	14.1	
Other noninterest expense	15.1	
Total operating expenses	86.2	
Ratio of net income (annualized) to:		
Total assets (end of period)	0.66	
Total equity capital	11.00	

* Does not include the nonnational bank in the District of Columbia.

Domestic office deposits of national banks, by states, September 30, 1985
(Dollar amounts in millions)

	Total demand deposits at domestic offices	NOW and automatic transfer accounts	Non- transaction savings accounts	Time certificates of deposit of \$100,000 or more	Other large time deposits	All other time de- posits at domestic offices	Total deposits at foreign offices	Total consoli- dated deposits	Brokered deposits
All national banks	\$247,552	\$45,100	\$282,021	\$158,352	\$18,898	\$237,062	\$211,425	\$1,200,411	\$17,264
Alabama	2,296	357	2,230	1,243	206	2,876	138	9,347	100
Alaska	763	18	678	380	1	193	2	2,035	1
Arizona	2,963	453	4,326	1,639	4	3,452	28	12,866	3
Arkansas	1,523	406	2,113	1,060	71	2,512	5	7,690	10
California	30,510	5,760	41,389	22,830	2,296	22,730	42,903	168,419	2,408
Colorado	3,901	715	4,275	2,432	192	2,290	215	14,020	118
Connecticut	3,655	654	2,887	861	306	2,539	427	11,330	144
Delaware	170	20	1,276	1,676	3	478	0	3,624	1
District of Columbia*	2,733	495	3,482	1,923	32	856	1,862	11,383	374
Florida	11,930	3,255	17,648	5,224	387	10,744	795	49,983	188
Georgia	5,788	887	4,482	2,142	83	4,009	867	18,257	439
Hawaii	38	1	70	32	0	28	0	169	0
Idaho	741	263	1,406	537	4	1,650	0	4,601	94
Illinois	14,205	1,978	12,981	10,817	1,838	14,446	22,025	78,290	1,038
Indiana	3,833	676	5,196	2,048	34	6,987	393	19,167	27
Iowa	1,534	402	1,762	449	2	3,236	20	7,405	66
Kansas	1,624	424	2,212	1,191	73	2,755	0	8,279	19
Kentucky	2,141	516	2,232	1,068	32	3,366	147	9,503	168
Louisiana	3,439	600	3,829	3,576	18	3,013	21	14,496	237
Maine	431	170	728	85	3	489	0	1,907	0
Maryland	3,876	465	3,945	1,031	5	2,884	983	13,189	315
Massachusetts	7,088	1,059	7,162	3,984	699	2,470	7,093	29,554	505
Michigan	6,394	911	8,869	3,035	137	8,647	1,437	29,431	273
Minnesota	5,523	1,104	4,597	5,738	478	6,103	3,002	26,545	1,740
Mississippi	1,432	325	1,451	1,010	5	2,257	25	6,505	0
Missouri	5,282	653	3,427	2,937	283	3,798	594	16,973	316
Montana	524	233	793	261	45	1,251	0	3,108	2
Nebraska	1,546	451	1,565	556	6	3,159	0	7,283	2
Nevada	823	228	814	418	0	596	0	2,879	115
New Hampshire	586	258	922	211	2	620	0	2,600	1
New Jersey	10,190	1,560	11,947	2,601	83	8,362	281	35,024	42
New Mexico	877	155	1,533	933	42	1,147	0	4,687	0
New York	30,545	3,260	31,409	10,733	6,092	17,699	104,422	204,160	813
North Carolina	5,352	1,359	6,026	2,481	238	5,201	1,436	22,093	502
North Dakota	397	204	596	236	1	1,197	0	2,629	4
Ohio	9,822	2,424	13,732	4,809	232	15,113	846	47,039	296
Oklahoma	3,475	606	3,661	4,847	16	4,208	133	16,946	244
Oregon	2,035	927	3,362	553	0	2,473	122	9,471	82
Pennsylvania	14,003	2,384	18,521	6,568	558	15,023	6,406	64,463	998
Rhode Island	943	130	1,501	966	253	1,001	860	5,654	347
South Carolina	1,795	520	1,914	269	2	1,521	0	6,022	0
South Dakota	449	263	1,034	2,000	1	2,076	0	5,823	739
Tennessee	3,682	783	3,657	1,916	24	5,063	101	15,226	18
Texas	23,397	3,242	17,330	32,607	3,696	15,948	12,235	108,456	4,042
Utah	1,143	300	1,169	809	4	1,327	133	4,885	0
Vermont	243	76	481	68	7	432	0	1,307	0
Virginia	2,950	911	3,571	1,368	98	5,125	32	14,055	125
Washington	4,691	1,353	5,777	2,232	37	5,436	1,102	20,628	287
West Virginia	1,100	284	1,963	450	4	2,836	0	6,638	3
Wisconsin	2,708	450	3,343	1,192	29	3,764	334	11,820	16
Wyoming	461	171	745	320	178	675	0	2,549	0

Domestic office loans of national banks, by states, September 30, 1985
(Dollar amounts in millions)

	Total loans, gross	Loans secured by real estate	Loans to financial institutions	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans at foreign offices	Total loans less un- earned income
All national banks	\$981,028	\$243,781	\$17,261	\$18,004	\$266,494	\$178,903	\$93,055	\$163,525	\$970,739
Alabama	7,419	1,902	57	65	2,347	1,934	1,079	33	7,221
Alaska	1,537	497	0	2	595	196	240	6	1,536
Arizona	10,453	3,310	259	439	2,891	2,856	651	47	10,423
Arkansas	5,248	1,840	60	208	1,754	1,089	287	9	5,147
California	144,975	43,932	1,170	3,093	29,054	22,100	9,531	36,096	144,800
Colorado	10,260	3,307	57	546	3,457	2,072	819	3	10,236
Connecticut	9,343	2,946	178	15	3,277	2,127	603	192	9,177
Delaware	7,753	420	1	0	334	6,854	145	0	7,751
District of Columbia*	7,873	2,465	323	1	2,214	775	1,191	904	7,830
Florida	36,381	14,287	344	136	8,136	10,219	2,862	398	35,605
Georgia	15,260	3,754	219	78	4,653	4,011	2,300	245	15,088
Hawaii	112	59	0	0	37	14	1	0	111
Idaho	3,666	952	0	459	1,028	943	283	0	3,643
Illinois	64,938	10,899	1,493	1,165	22,395	7,979	6,554	14,454	64,487
Indiana	13,870	4,226	412	356	3,542	3,317	1,854	164	13,682
Iowa	4,616	1,261	61	797	1,095	1,003	389	11	4,594
Kansas	5,118	1,177	52	790	1,685	1,064	349	0	5,090
Kentucky	7,132	1,980	74	174	2,096	1,642	1,103	59	7,001
Louisiana	10,225	2,954	69	87	3,499	2,375	1,200	40	10,064
Maine	1,388	524	0	5	426	315	118	0	1,386
Maryland	11,040	3,135	155	39	2,704	2,977	1,156	875	10,991
Massachusetts	26,285	5,079	518	22	9,994	2,950	2,606	5,116	26,074
Michigan	20,884	5,982	268	151	7,646	3,687	2,406	744	20,830
Minnesota	21,149	4,423	154	801	8,162	2,982	3,523	1,103	21,002
Mississippi	4,428	1,460	64	102	1,193	1,271	338	0	4,273
Missouri	12,179	3,254	422	330	3,617	2,563	1,631	362	12,098
Montana	2,158	486	4	356	727	489	94	0	2,129
Nebraska	4,832	787	129	1,341	1,148	1,001	426	0	4,824
Nevada	4,078	793	80	12	548	2,480	164	0	4,078
New Hampshire	2,042	740	6	1	614	574	107	0	1,997
New Jersey	25,058	9,038	747	12	7,676	5,082	2,309	191	24,643
New Mexico	3,224	993	69	144	1,096	797	125	0	3,168
New York	176,402	21,823	3,468	333	29,462	17,154	12,183	91,979	173,501
North Carolina	19,887	5,100	431	181	6,508	4,630	2,391	646	19,755
North Dakota	1,703	407	1	342	531	338	84	0	1,700
Ohio	36,405	9,853	425	394	10,064	10,935	4,353	382	35,788
Oklahoma	11,158	3,603	196	664	3,925	1,550	1,215	5	11,071
Oregon	8,008	2,245	60	269	2,498	1,544	1,323	70	7,941
Pennsylvania	54,580	10,451	3,101	170	19,001	8,191	9,913	3,753	53,909
Rhode Island	4,942	1,366	149	3	1,697	840	622	266	4,920
South Carolina	4,825	1,310	108	49	1,291	1,499	568	0	4,681
South Dakota	9,714	450	9	607	754	7,713	181	0	9,698
Tennessee	10,973	3,075	267	112	3,411	2,513	1,582	13	10,824
Texas	86,793	29,086	1,323	1,776	33,600	10,096	7,321	3,590	85,917
Utah	3,834	1,451	8	71	1,100	902	301	0	3,812
Vermont	995	452	16	14	259	199	54	0	994
Virginia	12,237	3,978	21	128	2,873	3,910	1,303	24	11,854
Washington	19,281	5,376	150	726	5,819	3,812	1,995	1,402	19,207
West Virginia	4,031	1,575	7	12	722	1,510	205	0	3,900
Wisconsin	8,862	2,917	69	253	2,763	1,533	983	344	8,815
Wyoming	1,479	400	3	173	575	294	34	0	1,471

DEPT. OF COMMERCE

National banks engaged in lease financing, September 30, 1985
(Dollar amounts in thousands)

	Total number of national banks	Number of banks engaged in lease financing	Amounts of lease financing at domestic offices
All national banks	4,966	1,158	\$12,988,580
Alabama	59	12	54,514
Alaska	6	2	7,206
Arizona	12	2	164,268
Arkansas	90	24	19,031
California	169	54	3,609,094
Colorado	238	87	146,424
Connecticut	16	4	33,722
Delaware	15	1	11,036
District of Columbia	18	7	37,450
Florida	181	33	210,609
Georgia	54	17	249,799
Hawaii	3	1	589
Idaho	7	3	82,928
Illinois	403	86	124,892
Indiana	111	37	240,718
Iowa	110	25	13,929
Kansas	170	39	38,746
Kentucky	79	21	140,744
Louisiana	69	10	72,051
Maine	8	2	6,778
Maryland	25	7	186,085
Massachusetts	58	19	856,336
Michigan	119	21	228,959
Minnesota	212	75	167,542
Mississippi	33	5	11,542
Missouri	127	37	176,196
Montana	55	12	1,826
Nebraska	123	42	71,925
Nevada	6	3	20,914
New Hampshire	25	3	1,980
New Jersey	71	16	202,823
New Mexico	45	20	15,782
New York	105	27	1,670,680
North Carolina	17	6	539,663
North Dakota	42	16	9,385
Ohio	148	64	819,550
Oklahoma	231	60	17,666
Oregon	7	2	256,526
Pennsylvania	191	22	860,405
Rhode Island	5	2	339,227
South Carolina	20	3	41,609
South Dakota	26	8	1,650
Tennessee	59	26	62,559
Texas	1,043	117	406,296
Utah	7	3	100,913
Vermont	12	0	0
Virginia	45	8	198,865
Washington	25	9	366,626
West Virginia	99	14	5,969
Wisconsin	117	33	83,449
Wyoming	59	11	1,104
District of Columbia—all*	19	7	37,450

* Includes the nonnational bank in the District of Columbia, which is supervised by the Comptroller of the Currency

Outstanding balances, credit cards and related plans of national banks, September 30, 1985
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,966	2,333	\$55,651,568
Alabama	59	17	232,552
Alaska	6	4	68,210
Arizona	12	8	639,166
Arkansas	80	12	75,635
California	169	149	10,022,346
Colorado	238	204	739,567
Connecticut	16	8	379,730
Delaware	15	13	5,507,217
District of Columbia	18	16	123,201
Florida	181	66	1,841,094
Georgia	54	33	1,430,949
Hawaii	3	2	2,854
Idaho	7	6	139,859
Illinois	403	183	3,248,267
Indiana	111	76	643,275
Iowa	110	55	299,324
Kansas	170	41	205,655
Kentucky	79	35	145,516
Louisiana	69	20	456,254
Maine	8	7	61,464
Maryland	25	13	1,539,598
Massachusetts	58	46	711,624
Michigan	119	90	994,790
Minnesota	212	147	352,836
Mississippi	33	6	124,441
Missouri	127	65	763,852
Montana	55	30	38,867
Nebraska	123	37	281,651
Nevada	6	4	2,023,085
New Hampshire	25	21	62,147
New Jersey	71	49	697,034
New Mexico	45	11	157,727
New York	105	54	5,045,494
North Carolina	17	15	1,054,007
North Dakota	42	24	23,520
Ohio	148	103	2,380,717
Oklahoma	231	59	180,634
Oregon	7	4	422,672
Pennsylvania	191	55	680,609
Rhode Island	5	3	274,333
South Carolina	20	15	294,216
South Dakota	26	11	7,283,661
Tennessee	59	19	451,924
Texas	1,043	299	721,673
Utah	7	4	143,513
Vermont	12	4	27,095
Virginia	45	14	793,968
Washington	25	10	1,341,044
West Virginia	99	24	67,419
Wisconsin	117	97	442,251
Wyoming	59	44	12,788
District of Columbia—all*	19	17	123,457

* Includes the nonnational bank in the District of Columbia, which is supervised by the Comptroller of the Currency.

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Total loans and leases past due at national banks, by states, September 30, 1985
(Dollar amounts in millions)

	Number of banks*	Type of loan					
		Real estate	Commercial and industrial	Personal	All other	Total domestic loans	Foreign
Reporting national banks	4,966	\$11,012.6	\$12,202.4	\$5,672.2	\$5,747.5	\$37,344.3	\$ 9,430.5
Alabama	59	45.3	79.0	57.4	19.1	214.2	0.0
Alaska	6	29.1	29.3	6.1	5.6	86.3	0.0
Arizona	12	149.0	146.3	90.1	45.6	431.7	7.5
Arkansas	80	107.8	71.8	40.6	58.6	333.5	0.0
California	169	3,120.1	2,597.0	740.8	1,180.4	7,690.5	1,894.4
Colorado	238	176.5	145.7	56.9	226.8	767.9	0.0
Connecticut	16	85.6	124.4	68.9	11.9	293.0	25.3
Delaware	15	41.9	3.6	296.0	1.5	343.6	0.0
District of Columbia†	19	115.5	121.6	13.6	16.8	271.5	45.5
Florida	181	513.2	284.8	200.4	109.1	1,151.5	17.2
Georgia	54	71.1	112.9	115.5	62.6	372.2	16.6
Hawaii	3	0.8	—	0.5	1.2	4.9	0.0
Idaho	7	40.0	60.9	25.5	27.7	158.0	0.0
Illinois	403	432.9	643.3	217.3	253.2	1,817.6	742.5
Indiana	111	130.5	87.9	80.0	82.4	447.4	11.6
Iowa	110	35.6	19.2	27.7	67.8	281.0	1.5
Kansas	170	29.8	24.2	26.9	74.5	228.4	0.0
Kentucky	79	71.8	47.6	33.0	45.5	232.6	4.1
Louisiana	69	214.4	186.9	94.6	65.5	606.3	0.0
Maine	8	20.3	7.2	7.2	4.7	40.8	0.0
Maryland	25	79.9	100.1	157.0	9.6	350.6	16.4
Massachusetts	58	168.3	339.3	98.4	104.6	729.9	342.7
Michigan	119	236.7	178.1	81.2	81.5	633.2	11.3
Minnesota	212	234.2	336.6	73.2	242.8	1,075.2	125.9
Mississippi	33	60.6	38.6	38.6	22.7	173.8	0.0
Missouri	127	111.1	125.3	63.9	91.6	465.5	55.2
Montana	55	26.7	9.7	17.5	59.2	172.7	0.0
Nebraska	123	27.9	16.2	29.7	110.2	287.2	0.0
Nevada	6	36.3	27.7	25.8	3.5	93.9	0.0
New Hampshire	25	13.6	4.3	13.2	10.5	46.1	0.0
New Jersey	71	299.1	264.3	138.8	65.6	794.6	3.6
New Mexico	45	37.4	28.0	23.4	44.3	188.6	0.0
New York	105	733.0	1,559.0	766.8	328.3	3,413.3	5,419.2
North Carolina	17	74.7	147.9	88.0	36.1	347.5	18.5
North Dakota	42	15.5	—	9.6	29.4	98.0	0.0
Ohio	148	394.8	378.9	284.4	131.5	1,255.6	31.5
Oklahoma	231	185.0	215.1	51.5	192.8	883.8	0.0
Oregon	7	148.7	114.2	39.1	47.6	352.8	0.0
Pennsylvania	191	438.7	695.4	234.8	355.6	1,763.6	161.0
Rhode Island	5	23.3	64.7	23.6	18.7	131.6	25.9
South Carolina	20	36.7	40.7	29.5	16.1	127.1	0.0
South Dakota	26	12.2	27.4	536.2	110.7	705.4	0.0
Tennessee	59	100.7	106.4	70.4	39.8	336.3	0.5
Texas	1,043	1,341.4	1,772.1	258.1	844.9	4,700.4	329.1
Utah	7	132.0	43.7	28.5	14.4	220.7	0.0
Vermont	12	12.4	16.6	6.1	3.9	41.4	0.0
Virginia	45	201.5	66.5	81.8	42.2	401.6	4.5
Washington	25	220.5	540.1	102.9	138.7	1,008.6	116.8
West Virginia	99	68.7	12.3	54.7	30.6	199.1	0.0
Wisconsin	117	92.2	139.4	34.5	93.8	423.4	1.2
Wyoming	59	17.3	—	10.0	63.5	149.9	0.0

*The sum of Real estate, Commercial and industrial, Personal and All other is less than Total domestic because nonaccrual loans are not reported by loan type by banks filing the abbreviated Report of Condition and, as a result, are counted in the total figure only. Dashes indicate amounts of less than \$500,000.

Average national banks' percent of loans past due at domestic offices, by assets

	Assets in millions of dollars									
	Less than \$10	\$10 to \$20	\$20 to \$25	\$25 to \$40	\$40 to \$100	\$100 to \$300	\$300 to \$900	\$900 to \$5,000	\$5,000 or more	All national banks
Real estate										
March 1984	25	38	42	40	35	30	37	43	50	36
June 1984	22	39	34	36	33	27	34	36	48	33
September 1984	21	34	35	36	33	28	34	40	45	32
December 1984	20	36	39	38	36	30	40	44	57	35
March 1985	23	38	40	40	37	31	40	42	50	36
June 1985	22	39	36	35	35	31	39	38	49	34
September 1985	21	36	37	36	34	31	40	41	50	34
Commercial and industrial										
March 1984	NA	NA	NA	NA	NA	NA	51	63	64	55
June 1984	NA	NA	NA	NA	NA	NA	50	52	55	50
September 1984	NA	NA	NA	NA	NA	NA	49	51	53	48
December 1984	NA	NA	NA	NA	NA	NA	50	51	55	49
March 1985	NA	NA	NA	NA	NA	NA	51	50	54	49
June 1985	NA	NA	NA	NA	NA	NA	50	45	52	47
September 1985	NA	NA	NA	NA	NA	NA	50	47	48	47
Personal										
March 1984	34	56	35	41	32	86	21	22	24	45
June 1984	29	37	32	33	31	26	20	21	23	30
September 1984	26	35	29	34	31	25	22	24	22	30
December 1984	28	38	35	36	32	27	24	27	24	32
March 1985	25	35	37	34	32	25	23	25	26	31
June 1985	26	34	33	33	29	23	23	24	24	29
September 1985	24	35	32	30	31	26	24	27	31	30
All other										
March 1984	25	37	43	47	42	33	19	22	39	38
June 1984	34	40	37	37	37	31	19	20	36	35
September 1984	24	38	41	43	38	33	14	18	33	50
December 1984	26	42	45	45	41	35	20	22	34	38
March 1985	32	43	44	50	48	39	20	24	37	13
June 1985	28	43	40	42	42	35	21	20	33	38
September 1985	33	47	45	41	42	36	20	24	33	40
Total loans										
March 1984	29	44	49	51	47	41	39	40	49	45
June 1984	28	44	43	45	44	38	36	36	44	41
September 1984	26	44	47	48	45	40	36	37	42	43
December 1984	27	50	52	53	49	43	40	39	45	47
March 1985	33	52	59	58	54	47	39	39	44	51
June 1985	34	52	51	53	51	45	39	36	42	48
September 1985	35	52	58	54	53	48	40	38	43	50

See notes at end of tables.

Average national banks' percent of loans past due at foreign offices, by assets

	Assets in millions of dollars			
	\$300 to \$900	\$900 to \$5,000	\$5,000 or more	All national banks
All foreign office loans				
March 1984	7.2	8.6	8.6	8.4
June 1984	9.3	6.9	9.3	8.0
September 1984	9.8	8.7	8.2	8.8
December 1984	11.3	7.6	7.8	8.2
March 1985	9.1	7.4	8.2	7.9
June 1985	9.8	7.7	7.4	8.0

NOTES:

These figures include non-accrual and past due loan and lease financing receivables.

Past due loans—These items are (1) single payment notes 30 days or more past maturity; (2) single payment notes with interest due at specified intervals and demand notes on which interest is due and unpaid for 30 days or more; (3) amortizing real estate loans and closed-end monthly installment loans and lease financing receivables in arrears two or more monthly payments, or, if scheduled other than monthly, when one scheduled payment is due and unpaid for 30 days or more; (4) open-end credit accounts on which the customer has not made the minimum monthly payment for two or more billing cycles, and (5) unplanned overdrafts outstanding 30 days or more after origination.

Non-accrual loans—These items are (1) those maintained on a cash basis because of deterioration in the financial position of the borrower; and (2) those on which principal or interest has been in default for a period of 90 days or more unless the obligation is both well secured and in the process of collection, in which case it is considered merely past due.

Average banks' percent of loans past due—Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated.

Loan categories—The loan categories for this table correspond to those for the report of condition except for "Other loans." "Other loans" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans not included in the specified categories.

Data for prior periods, based on slightly different definitions, may be found in the *Quarterly Journal*, Volume 2, Number 1, pp. 229-232.

Beginning March 1984, past due commercial and industrial loans of banks with less than \$300 million in assets have been combined with all other loans.

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